CAPITAL STRUCTURES UNDER HYPERINFLATION: *THE ZIMBABWEAN EXPERIENCE*

D. P. CHIWANDAMIRA

A Thesis Submitted to the Faculty of Commerce of the University of Cape Town in Partial fulfilment of the Requirements for the Degree of Masters in Financial Management

Cape Town 2009

DECLARATION

I, Daniel Peter Chiwandamira hereby declare that this study is my own original work and that all references have been duly acknowledged.

I further declare that this thesis in part or in its entirety has not been submitted to any other University for degree purposes or any other educational purposes.

ACKNOWLEDGEMENTS

This study was completed through the assistance of some individuals whose contribution I would like to acknowledge.

- Precious Mkandla for assistance in data collection.
- Bothwell Hlahla for the editorial and valuable comments and Dr Richard Chivaka for providing overall supervision and guidance throughout the study

ABSTRACT

An essential part of an economy of developing and less developed nations lies in the establishment of a set of financial markets. In these financial markets companies are able to determine their capital structure by making rational decisions on whether to look internally or externally for financing. The study analysed the capital structures with a view of determining the extent of the applicability of capital structure theories to listed companies that are operating under a hyper inflation. The aim of the study was to verify the theoretical findings and predictions about determinants of capital structure.

There is extensive literature on capital structure theories and their validity, Miller and Modigliani (1958), Ross (1977), Myers (1984 and 1977), Myers and Majluf (1984), and others, which have focused on why firms opt for certain capital structures. These studies have been conducted in stable macro economic environments of developed, developing, and least developed countries. There has been no in-depth study on the choices of capital structure that has been done in an unstable economy that is characterised by hyper inflation, such as Zimbabwe. As a step to understanding the rational and choices of capital structure in a hyperinflationary environment, a sample of eight companies listed on Zimbabwe Stock Exchange, which has a total of seventy five listed companies, was selected. Size, tangibility, profitability, and non-tax debt shield were the determinants of capital structure that were used. Debt to equity ratio was also used to analyse the companies, sectors they fall in and an overall analysis.

The objective of the research was to test the validity and applicability of the conventional capital structure theories in the Zimbabwean environment between 1998 and 2006. In the literature review, the research presents an overview of four main capital structure theories namely; trade-off, signalling, pecking order and agency theory. The research critically examined capital structures of eight listed companies in Zimbabwe that have been operating under hyper inflation. The comparison of capital structures of companies in different sectors was done to determine if there was any link between the choice of a particular capital structure mix and the sector the company was operating in. The impact of interest rates was also taken into account in the research to determine the effect under the same environment.

Zimbabwe has experienced very high levels of inflation from 2000 with recent official statistics indicating inflation to be 100,580.2% as of end of January 2008.

This figure is widely perceived as understated as the basket of good used in the calculation is based on government controlled prices. According to the IMF the real inflation figure taking into account the "black market" prices is estimated at 150,000%. This presentation will not delve into the debate of the definition of hyperinflation but the evidence points out a hyperinflationary environment by all accounts.

To conduct the research, inflation adjusted financial reports dating from 1998 to 2006 of eight listed companies on the Zimbabwe Stock Exchange were analysed. This was in line with IAS 29 which recommends inflation adjustment of financial results in a

hyperinflationary environment to give a fair and meaningful view of the financial position of an entity.

The key findings of the research were that in a hyperinflationary environment, firms shift from expensive external sources of capital such as debt finance especially when interest rates increase to cheaper internal sources of financing, where implementation is almost instantaneous. Firms also adopt generic frameworks to make their capital structure decisions when faced with the same adverse economic factors, which means there are no major differences according to industry classification. However, capital structure theories that have been developed are applicable to Zimbabwe's hyperinflationary environment in different intensities, though some of the key underlying assumptions could not be assessed due to lack of quality information.

TABLE OF CONTENTS

DECLARATION 2
ACKNOWLEDGEMENTS 3
ABSTRACT 4
1.1 Introduction 9
1.2 Research Objectives 11
1.3 Importance of Research 13
1.4 Research Limitations 14
1.6 Organisation of the Dissertation 15
CHAPTER 2: CONCEPTUAL FRAMEWORK 15
2.1 Introduction 17
2.2 Miller & Modigliani Propositions 17
2.3 Trade-Off Theory 20
2.4 Bankruptcy Costs 23
2.5 Signalling Theory 26
2.6 Pecking Order Theory 26
2.7 Agency Theory 27
CHAPTER 3: CHOICES OF CAPITAL STRUCTURES 32
3.1 Introduction 32
3.2 Previous Research in Least Developed Countries 33
CHAPTER 4: HYPERINFLATION AND BACKGROUND ON ZIMBABWEAN ECONOMY 39
4.1 Introduction 39
4.2 Hyperinflation 39
4.3 Background on the Zimbabwean Economy 42
4.4 Literature Review Summary 44
CHAPTER 5: METHODOLOGY 46
5.1 Introduction 46
5.2 The Variables 47
5.2.1 Profitability 47
5.2.2 Non-Debt Tax Shields 47
5.2.3 Tangibility 48
5.2.4 Size of the Firm 48
5.3 Research Process 49
5.4 Research Design 50
5.5 Capital Structures-Financial ratios 51
5.5.1 Debt to Equity Ratio 52
5.6 Interest Rates 52
CHAPTER 6: FINDINGS 53
6.1 Introduction 53
6.2 Company Analysis 53
6.3 Industrial and Processing Sector 53
6.3.1 Astra Industries Limited 53
Astra Analysis 54
6.3.2 Delta Corporation Limited 57

6.4 MINING SECTOR 61
6.4.1 Bindura 61
6.4.2 Hwange Colliery Company Limited 64
6.5 HOTELS AND LEISURE SECTOR 68
6.5.1 Zimbabwe Sun Limited (Zimsun) 68
6. 5.2 TA Holdings 71
6.6 TELECOMMUNICATIONS SECTOR 75
6.6.1 Econet Wireless Holdings Limited 75
Econet Analysis 77
6.7 FOOD RETAIL SECTOR 79
6.7.1 OK Zimbabwe Limited 79
CHAPTER 7: CONCLUSION 84
BIBLIOGRAPHY 90
Appendix 1: Zimbabwe Consumer Price Index-All Items (Year on Year Inflation) ... 97
Appendix: 2 Schedule of Interest rates 98
Appendix 3-Financial Statements of Selected Listed Companies 99

CHAPTER 1: INTRODUCTION

1.1 Introduction

Since the article by Miller and Modigliani (M & M) (1958), debate has been on going about capital structures and reasons why firms borrow. Several studies by Ross (1977), Myers (1984 and 1977), Myers and Majluf (1984), Marsh (1982), and others which can be found in a survey by Harris and Raviv (1991), have been conducted to understand the relationship between debt and equity and the reason why firms opt for a particular capital structure. These studies are highlighted in the subsequent theories stated in the research which were primarily built on the M & M Propositions. The underlying assumption of most capital structure theories has been a stable macro-economic environment where market forces come into play. According to a country report by the International Monetary Fund (2004), Zimbabwe has experienced one of the worst post Second World War economic declines in living history and as such has provided an opportunity to learn more about how publicly listed companies have operated under such an environment, particularly in the context of capital structure decisions.

Empirical research has been carried out in both developed and developing countries based on the various capital structure theories or hypotheses, such as the agency theory, signalling theory, pecking order theory and the trade off theory.

Fan, Titan and Twite (2003) in their study of capital structures in 39 developed and developing countries concluded that a country's legal system, tax system as well as

information environment affected the financing decisions. In this study they concluded that the presence of information intermediaries resulted in lower leverage reduced short term debt and the use of more trade credit. They also concluded that the level of sophistication of the banking sector, equity and bond markets influenced capital structures with weak evidence suggesting that higher level of funds that are available to institutional investors are linked to lower leverage and usage of long term debt.

Hammes (2003)_ in a survey of companies in Canada, Denmark and Italy, Sweden, UK and the US concluded that firm size, profitability, tangibility, market to book ratio have significant impact on firm's choice of capital structure theories.

As evidenced by the studies cited it is clear that there is no universal single theory of capital structure that can be applied in every situation. In addition there is also lack of consensus about the basic empirical facts on the choice of an optimal capital structure. Miller and Modigliani laid the foundations for capital structure theories and concluded that under certain conditions, a company's current market value would not be affected by the financing policy. Ross (1977) concluded that the level of debt chosen by managers sends a signal to external investors about the quality of the company, in support of the signalling theory. Myers (1977) argues that ultimately the company bears all the tax consequences of its operations whether it pays these taxes directly or indirectly. Jensen and Meckling (1976) developed agency theory due to the conflict between the interests of shareholders and their agents, who are managers, and concluded that by issuing debt, managers are committing themselves to pay out future cash flows.

Apart from the fact that the studies that have been cited above show that there is no overall consensus; they were also conducted in stable economic environments. While the Zimbabwe situation is very isolated, it presents an opportunity to investigate capital structure choices under an unstable economic environment. This research adds a new dimension by examining how listed companies that have been operating in a hyper inflationary environment have financed their operations and seeks to establish the applicability of the different capital structure theories. In order to investigate the capital structure decisions in the context of a volatile economic environment, this study answered the following questions by undertaking studies in eight companies that are listed on the Zimbabwe Stock Exchange: and examined their financial statements between 1998 and 2006.

a. *How have corporate structures and financing patterns changed in Zimbabwe between 1998 and 2006?*
b. *How have listed companies in Zimbabwe financed their growth and to what extent have capital structure theories been applicable?*
c. *Are there any differences in corporate structures according to industry classification, size of firm under hyperinflation?*

1.2 Research Objectives

The purpose of this research was to test the validity or otherwise of capital structure theories under abnormal economic conditions. The essence of most capital structure decisions is to find an optimal mix of debt and equity that maximises value based on certain underlying assumptions. The study was carried out to establish to what extent the

widely held financial theories on capital structures hold true when the macro-economic environment is unstable and they are many variables. In the case of Zimbabwe, the country has been experiencing unprecedented inflation yet the stock market has continued operating albeit with serious challenges. Previously the same stock exchange had always been used as a model of a successful emerging capital market. On the other hand the availability of long term debt is almost non existent as most lenders are not willing to commit funds for longer periods due to inflationary capital erosion. This is evident in the inactivity of the bond market. The research was also conducted to add to the on going debate about capital structures especially in a developing country operating under high levels of inflation.

With such high levels of inflation, it was widely expected that the Zimbabwean economy would have collapsed and the capital market would have been totally dysfunctional. However, this has not occurred and by and large the stock market is still operational. It is important therefore to establish how companies have adjusted their capital structures to survive under such conditions. This study will shed light on this particular aspect.

It is important to note that this is the first known study of this scope, which intends to add knowledge on the issue of capital structures under hyperinflation. Other studies[1] done previously have concluded that companies operating in a particular industry sector tend to have similar capital structures. The extreme form of these theories makes the assumption that; firms in a particular sector simply "follow the leader" in determining their debt to

[1] Titman and Wessels [1988] – US, Campbell and Hamao [1995] – Japan and Gatward and Sharpe [1996] – Australia. Barclay and Smith [1995], Stohs and Mauer [1996] and Guedes and Opler [1996]

equity mix (Behavioural Aspects of Intra Industry Capital Structure Decisions, 1996). This research will seek to verify whether this also holds true in Zimbabwe during hyper inflation.

Finally the research also seeks to identify trends and patterns in capital structures and the optimum mix over the defined period and the impact of those shifts in relation to profitability, non debt tax shields and the size of the firm.

1.3 Importance of Research

Companies can finance operations through ordinary and preferred shares, with retained earnings, or with debt. In most instances a company uses a combination of these instruments. Capital structure refers to the relationship between debt and equity and provides an insight into how risky a company is. M & M (1958) brought in a new dimension, which highlighted the importance of debt mainly due to the tax shield offered to companies. From this it would appear therefore that companies can continue leveraging themselves in order to benefit from the tax effects.

In practice, high levels of debt introduce prospects of bankruptcy and therefore there exists a point at which companies simply can no longer afford to borrow. Capital structures are important, as they are often a choice by management of the compromise between no debt and equity. Managing capital structures is important for the survival of a company. Given the importance of capital structures, the study delved into an

understanding of how companies have structured their balance sheets under hyperinflation.

1.4 Research Limitations

The Zimbabwean government has continuously intervened through the Central Bank and provided various loans at concessionary interest rates that are below inflation. This has resulted in the Central Bank adopting a dual interest rate regime whereby market rates which are still significantly negative, and running parallel to concessionary rates that were awarded to corporates with the view of stimulating growth. This has caused distortions, which are evident in the research, and this will have an effect on the comparisons drawn between companies in from the same sector depending on the source of funds. The availability of these funds also had an effect of influencing companies to favour debt as a form of finance with some arbitraging on the debt and investing the funds in the financial markets. In addition, the research will attempt to understand how the intervention of Central bank might have impacted on capital structure decisions given the fact that hyperinflation makes capital cheap for as long as the interest rate is below the inflation rate. Nevertheless it will be interesting to see the impact of such policies on the capital structures of the sample companies and based on this, one can make an inference on the rest of the listed companies given that the total population is very small with a total of seventy five companies with a sample of eight used for the study.

Due to the small size of the sample which is about ten percent (10%) of the total, no statistical association tests were undertaken and in fact such tests were not intended from

the outset. The small sample size is therefore another limitation of the study including the fact that in some cases only one company was selected during the analysis of the sectors. This was due to the fact that such sectors only have one company listed on the stock exchange. Caution should be exercised where general conclusions are made based on such limitations.

A further limitation of the research was that the analysis was based on inflation adjusted financial statements according to IAS 29 (Financial Reporting in Hyperinflationary Economies). However, this only came into effect in Zimbabwe during the period between 2001 and 2002 thus the information prior to that is historical. This somehow distorts the comparison but nevertheless the time period covered is long enough to provide a basis for accurate analysis. The other area, which this study will not delve into, is the use of the inflation adjusted accounts, an issue, which is widely disputed in the Zimbabwean environment with the main argument being the base to be applied to adjust the historical financials. This is an area of subjectivity and much debate; the literature review section will address some of these issues.

1.6 Organisation of the Dissertation

The rest of the dissertation is arranged as follows: Chapter 2 is a review of the literature which gives the theoretical anchor for the study; this chapter highlights work done by other researchers and indicates the gaps which the study seeks to fill. Chapter 3 is a continuation of the literature review and reviews the whole subject of choice of capital structures while Chapter 4 provides a background about Zimbabwe and also discusses the

subject of hyperinflation; this is important so that the reader is able to relate the analysis to the background against which companies have been operating. The chapter also includes a section, which provides an analysis of the Zimbabwean economy highlighting major economic milestones since 1980 when the country was granted political independence from Britain. Chapter 5 deals with the methodology and approach used to conduct the study, it helps in underpinning the findings of the study as it sets the parameters of the research. Chapter 6 discusses the findings and presents the results of the research. Finally Chapter 7 deals with the conclusions and recommendations, it summarises the research and highlights issues that further research can consider.

CHAPTER 2: CONCEPTUAL FRAMEWORK

2.1 Introduction

This chapter provides an overview of the principles and theory of capital structures. There is an abundance of literature on Capital Structure Theory and an attempt is made to summarise the key issues and link them to this study, however, it is beyond the scope of this study to present all the arguments and controversy surrounding academic debate on capital structures.

Capital Structure Theory is defined as the study of the relative importance of debt and equity in influencing the value of a firm. The performance of a company in the market is to some extent influenced by the efficiency of its capital structure. In basic terms, the composition of the total capital of a company is what makes the capital structure. Total capital in this case is defined as the net disposable funds after subtracting current liabilities. The next section presents the theory of capital structures and begins by looking at some of the fundamental issues where the study of modern day finance has evolved.

2.2 Miller & Modigliani Propositions

It is most appropriate to commence a review of Capital Structure Theory by considering the "irrelevance" propositions published by Miller and Modigliani in their paper in 1958. Their work laid the base for the history of modern finance theories and is regularly referred to in discussions on factors that influence policies on capital structures. The M &

M proposition is that given some conditions, a company's current market value would not be affected by the financing policy. In other words M & M's hypothesis was that there is no optimal capital structure due to the fact that whatever the level of debt, a company's Weighted Average Cost of Capital (WACC) would not change. Any increase in Return On Equity (ROE) resulting from financial leverage is exactly offset by the increase in risk and therefore WACC is constant. In simplistic terms, Miller and Modigliani in their paper in 1958 was quoted as saying "the size of the pie does not change regardless how you slice it". Their research was premised on the following fundamental assumptions:

1. There is neither brokerage nor any other transaction costs.
2. There are no personal income taxes or corporate taxes.
3. In the event of insolvency, company assets can be disposed of at fair market value.
4. All market participants can lend or borrow at the same risk free rate.
5. All investors are price takers and have the same information as management about the firm's earnings which are described by a normal distribution.
6. Earnings before Interest and Taxes (EBIT) is unaffected by the use of debt.

The conclusion from the M & M research was two propositions, which are summarised below.

Proposition 1: The market value of a firm is independent of its capital structure

Stated mathematically $V_L = V_U$ where V_L is a levered firm and V_U represents value of an un-levered firm. M & M argued that if $V_L \neq V_U$, investors would use arbitrage until

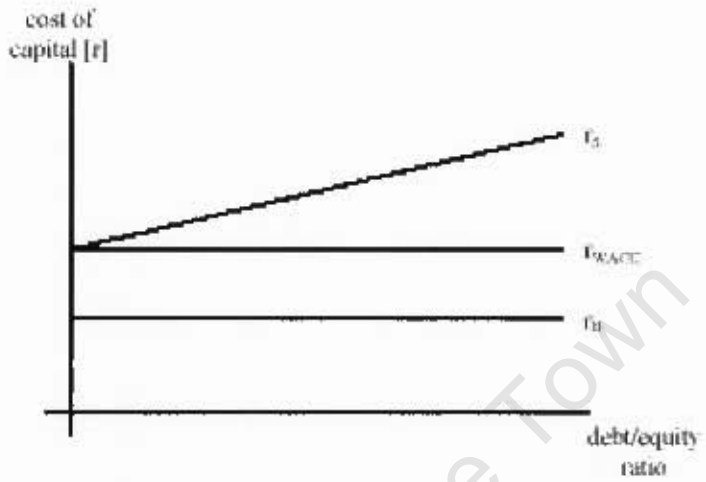
the share prices of the two firms were the same. From the first proposition M & M derived the second proposition.

Proposition 2: Firm's leverage has no effect on its Weighted Average Cost of Capital (WACC)

"The increased cost of borrowed funds as leverage increases tends to be offset by a corresponding reduction in the yield of common stock" (Miller and Modigliani,1958). In other words, the cost of equity capital is a linear function of the debt to equity ratio. This proposition can be stated mathematically as follows:

$R_s=R_o+B/S\ (R_o-R_b)$ where R_s is the cost of equity (required rate of return on equity), R_b the cost of debt (required return on debt), R_o is the cost of capital of an all equity firm, B is the total debt and S is the value of equity. The equation means that the average weighted cost of capital is constant regardless of the debt to equity ratio, a firm's attempt to reduce the cost of capital by adding debt, which is cheaper than equity will be offset by an increase in the cost of equity as it becomes more risky. The graph below illustrates this mathematical relationship better.

Figure I.1.



Source: Ross et al. (1996)

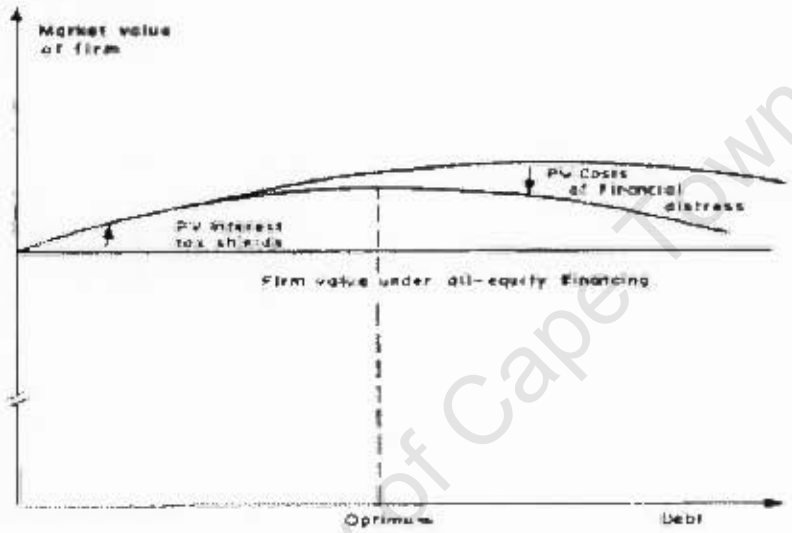
Having provided an overview of the fundamentals of Capital Structure Theory based on the initial work by Miller & Modigliani (1958), if the assumption that there are no taxes and bankruptcy costs is relaxed, it takes us to the financial trade-off theory, which is discussed in the next section. The implication of the theory was that even when debt was cheaper there would be a corresponding offset in an increase in the cost of equity thus the value of the firm would remain constant.

2.3 Trade-Off Theory

The trade-off theory as its name implies states that optimal debt-equity ratio of a firm is determined by a trade-off between the costs and benefits of debt assuming that the company's assets and investment plans are held constant. What this means is, companies should borrow up to the point when the marginal present value of the tax shield is just

offset by the increase in the present value of bankruptcy costs. The diagram below illustrates this relationship.

Figure I.2.



Source. Myers (1984)

The importance of the trade-off theory is the value of a leveraged firm is higher than that of an un-levered firm as a result of the tax savings through the use of debt. This is a departure from the initial M & M "no taxes" assumption, which had argued that a firm's capital structure had no impact on its value. Barclay et al. (1995) submitted that company tax allows deduction of interest payments but excludes dividends in the computation of taxable income. This therefore means that the choice of a financing structure in terms of debt to equity ratio becomes an important strategic decision which impacts on the company's after- tax cash flows. Increasing the level of debt should result in a lowering of the tax liability and a consequent increase in the after-tax cash flows. Correia et al. (2003) summarises the M & M assumption with corporate tax by stating that a firm's

WACC would decrease continuously as financial leverage increases towards 100% debt finance. Mathematically this is represented by the equation:

$V_L = V_U + T_cB$ where T_cB is the present value of the tax shield (T_c represents company tax rate and B is the value of debt) and M & M Proposition II becomes

$R_s = R_o + B/S\ (R_o - R_b)\ (1 - T_c)$.

The above relationship implies that companies can maximise value by assuming an all debt capital structure. Myers (1993) argues that few corporates are guaranteed to always show taxable profits in the future. A loss making company is unable to use the tax shield and basically forfeits the time value of money but carries the tax shield into the future.

Miller (1977) in article entitled "Debt and Taxes" revisited the issue of tax advantage of debt by also looking at the compensation that lenders (investors) will require as they are expected to pay tax on the interest income. Equity investors on the other hand get a tax break as they can opt to postpone payment of income tax by not realising the capital gains. In the long run Myers (1977) argues that ultimately the company bears all the tax consequences of its operations whether it pays these taxes directly (company tax) or indirectly (higher returns required on the securities that are traded).

In conclusion, after taking into account personal taxes, the value of a levered company is given by the relationship:

$V_L = V_U + [1 - (1 - T_c)\ (1 - T_s) / (1 - T_b)] * B$

Where T_b is the personal tax rate on ordinary income such as interest income and T_s is the personal tax rate on equity distributions. The next section outlines the financial theory with respect to bankruptcy costs.

2.4 Bankruptcy Costs

So far M & M's model has not taken into account the fact that as debt increases so does the risk of bankruptcy. Generally there are two forms of bankruptcy costs; direct and indirect costs. Legal and administrative costs of liquidation and restructuring are often categorised as direct costs. Michal Palata (2003) argues that while these costs can sometimes be large in absolute terms, generally they are very low compared to the value of the firm. Warner (1977) found that, in a survey of 20 railroad bankruptcies, the actual costs were about 1% of the market value of the company seven years before the bankruptcy and the figure tended to rise as the bankruptcy approached (i.e. 2.5% of the market value of the firm three years prior to the bankruptcy). Due to the small quantum value of the direct bankruptcy costs in relation to the firm value, one can argue that these costs do not therefore play a major role when it comes to the choice of capital structures.

It is important to look at the indirect bankruptcy costs and analyse their impact on the choice of capital structures. Barclay et al. (1995) point out that certain indirect bankruptcy costs can be very significant for both small and large firms and that they are best thought of as reduction in company value due to a shift in the company's investment policy arising from financial distress. The costs arise when the company is unable to carry on in business due to under investment when there is a threat of bankruptcy. Myers (1993) makes a very interesting observation: "The moral is; think not only of the

probability that borrowing will bring trouble. Think also of the value that may be lost if trouble comes." Myers (1984) in an earlier paper had aptly summed up the literature on bankruptcy costs by making two very important statements about financing behaviour:

1) Risky firms ought to borrow less. Risk in this case is defined as the variance rate of the market value of the firm's assets.
2) Companies with intangible assets where lenders are unable to collateralise the assets, tend to have low gearing and generally find that debt financing is expensive. Specialised intangible assets are more likely to lose value in financial distress.

In conclusion, we will briefly present a regression model that can be used to test the validity and application of the Trade-Off Theory. The model studies the effects of the factors, which have been discussed so far on a firm's leverage and is expressed mathematically by the following relationship:

$$Lit = \alpha + \beta Fit + \varepsilon it$$

Lit represents the leverage of the firm *i* on the date *t* and *Fit* the set of factors observed at the date *t*. Taking into account the different variables, Rajan and Zingales (1995) have expanded the regression model into:

$$Lit = \alpha + \beta size\mathbf{SIZE}it + \beta profit\mathbf{PROFIT}it + \beta tang\mathbf{TANG}it + \beta mtb\mathbf{MTB}it + \beta tax\mathbf{TAX}it + \varepsilon it$$

A brief discussion of the factors and how they relate to leverage is done below:

a. ***Size.*** According to Rajan and Zingales (1995), large companies tend to be more diversified and generally fail less often and therefore size is an inverse proxy for the probability of bankruptcy. Trade-off theory expects size to be positively

correlated to leverage ($\beta size>0$). Size is often represented by the natural logarithm of sales or natural logarithm of total assets.

b. ***Profit.*** Trade-off theory predicts that profit making firms are more highly leveraged to offset corporate taxes. Profitability is represented by earnings before interest and taxes (EBIT) divided by total assets (TA) or EBITDA (EBIT less depreciation and amortization) over total assets. Trade-Off Theory predicts that $\beta profit>0$.

c. ***Nature of Assets (TANG).*** Tangible assets can be used as collateral, which means that the more assets one has the greater the capacity to borrow. Trade-Off Theory predicts $\beta tang>0$.

d. ***Growth Opportunities (MTB).*** Market-to-book ratio represents market expectations about the value of future investments as well as growth prospects of the firm. Trade-off theory predicts a negative correlation between this ratio and leverage. $\beta mtb<0$.

e. ***Taxes (Tax).*** To protect payment of high taxes, companies tend to use debt as a shield. Trade-off theory therefore predicts a positive relationship with leverage $\beta tax>0$.

Having discussed the trade-off theory, which is a natural progression to the M & M propositions, we will now proceed to briefly review other theories which offer a different perspective to the choice of capital structures. The next section will present two theories that are based on asymmetric information.

2.5 Signalling Theory

One of M & M's assumptions is called symmetrical information, where investors and managers have the same information about the future prospects of a company. In reality this is never always the case, as managers tend to have better information than external investors. This is called asymmetric information and it has an important effect on optimal capital structure. Ross (1977) argued that managers with full information about the company and with their rewards depending on the firm value and future returns are motivated to send signals to investors. Under this model, managers know the true distribution of company returns while investors do not. Managers are rewarded if the firm's shares are more highly valued by the market but are punished if the company is liquidated. This means that the level of debt chosen by managers sends a signal to external investors about the quality of the company. High leverage is a "good signal." The empirical implication of this finding is that, one would expect positive (negative) stock price reactions in response to capital structure changes that increase (decrease) gearing. This is in contrast to the Pecking Order Theory which is discussed in the next section.

2.6 Pecking Order Theory

Myers (1984) and Myers and Majluf (1984) developed the Pecking Order Theory, as it is known today. Under the Pecking Order Theory, managers with asymmetric information about positive future prospects of a company will raise capital internally by reinvesting net income and disposing off its short term marketable securities. Only when this source of funding has been exhausted, will management issue debt and probably preferred stock.

The Pecking Order Theory generally regards issuance of common stock as the option of last resort.

As evidenced above, there is no well defined optimal capital structure in the Pecking Order Theory. The benefits of interest tax shield and the threat of financial distress have secondary significance under the Pecking Order Theory. Level of gearing is simply a summation of past events and debt ratios change when there is an imbalance of internal cash flow, net of dividends and real investment opportunities. This theory offers an explanation on why highly profitable and cash rich companies borrow less. The reason for low gearing is not because they have low target debt ratios but due to the fact that they have sufficient internal resources to finance their capital investment.

We will briefly discuss in the next section the last capital structure theory which is the agency theory.

2.7 Agency Theory

One fundamental assumption of the previous capital structure theories is that managers and shareholders interests are perfectly aligned. This however, in reality is usually not the case and the agency theory recognises that people will make decisions in their own interests. These decisions could be congruent with the interests of the firm but sometimes are not. A quotation from Adam Smith (1776) is appropriate: "The directors of such (joint-stock) companies, however, being the managers rather of other people's money than of their own, cannot well be expected to watch over the company with the same

anxious vigilance with which the partners in a private company frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for the master's honour, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company"

Jensen and Meckling (1976) developed Agency Theory as a consequence of the conflict between the interests of shareholders and their agents (management). They explained how optimal capital structures can be determined with the assistance of agency costs arising out of the conflict between shareholders on the one hand and management on the other. A number of authors have extended this theory and its application further. Key among these is the contribution of Myers (1997) on agency costs of debt and Jensen (1986) on the role of free cash flow in the determination of an optimal capital structure. Jensen argues that by issuing debt, managers are committing themselves to pay out future cash flows. Thus debt reduces the agency costs of free cash flow by reducing the amount of cash available for spending at the discretion of managers. Debt therefore plays a very important control function in companies that generate large cash flows but with low growth prospects and more importantly in companies that are down sizing. In these companies there is tremendous pressure to waste company resources through investments in uneconomic projects.

Jensen and Meckling (1976) noted that highly geared companies or those that are close to bankruptcy tend to invest in very risky projects as they feel that they are managing

somebody else's money. If an investment yields large returns that are well above the face value of the debt, shareholders will derive most of the gain. While on the other hand, if the investment does not succeed, holders of the debt face the consequence due to the fact shareholders have limited liability. Because of this, shareholders will pursue even high-risk projects that end up reducing the value of the firm.

Harris and Raviv (1991) argue that such investments result in a decrease in the value of the firm. The reduction on the value of the equity from the poor investment can be more than offset by the gain in the equity value captured at the expense of debt holders.

In summary Jensen and Meckling (1976) state that the agency costs associated with debt consist of the following:

1. The opportunity wealth loss caused by the impact of debt on the investment decisions of the company.
2. The monitoring and bonding expenditures by the bondholders and the company.
3. The bankruptcy and reorganisation costs.

In conclusion it has been shown that the agency effects of debt can potentially influence capital structure decisions and the optimal capital structure can be determined by trading off the agency costs of debt versus the benefits of debt as previously described. To sum up this chapter, the fundamental assumptions and implications of each of the capital structure theories will be presented in summary in Table 1 below:

Table 1 Summary of Capital Structures

Theory	Key Assumptions	Key Predictions
Trade Off Theory	Releases the "no taxes" and "no bankruptcy costs" assumptions.	1. Companies follow a trade-off process of capital structure adjustment that leads to an optimal gearing level over the long term. 2. The effective tax rate is positively related with the debt level. 3. Default risk is negatively correlated to firm's debt ratio. 4. Companies with greater growth opportunities will have a lower target debt ratio. 5. Company debt is positively correlated with the tangibility of its assets. 6. The size of a company is positively correlated to the level of debt. 7. There is a negative relationship between gearing and profitability.
Signalling Theory	Information asymmetry between managers and investors.	1. Leverage is positively correlated with company value. 2. The debt-equity ratio will be positively correlated with the company's profitability. 3. Leverage is positively related to the extent of managerial ownership. 4. One cannot expect positive (negative) stock price reactions in response to capital structure changes that increase (decrease) leverage.
Pecking Order Theory	Information asymmetry between managers and investors.	1. There is a pecking order: companies prefer internal to external finance and issuance of safer securities to more risky ones. 2. Leverage increases with the extent of information asymmetry. 3. The level of a company's debt is negatively correlated with the volume of free cash flow. 4. Debt issues do not cause any stock price movements
Agency Theory	Interests of managers, shareholders and	1. Leverage is positively correlated with the volume of free cash flow. 2. Bond contracts will include features that

	debt holders are not perfectly aligned.	attempt to prevent asset substitution. 3. Firms with fewer growth opportunities will have higher debt levels. 4. Leverage is negatively related to monitoring and investigation costs.

CHAPTER 3: CHOICES OF CAPITAL STRUCTURES

3.1 Introduction

The chapter is a continuation of the literature review and provides insight into what influences companies to make a choice of the optimal capital structure. Prior research on in Least Developed Countries (LDC) is reviewed to identify the gains and reveal the areas that are still lacking, on a comparative with the Zimbabwean case.

Capital structure theory implies that companies make a choice of what has been often referred to as a target debt to equity ratio and that this choice is based upon a balance between the cost and benefit of debt as compared to equity (optimal structure).

According to a survey by Harris and Raviv (1990), there exists a lot of literature, which describes and attempts to explain the choices of capital structures in developed countries. This literature normally makes a fundamental assumption that well functioning liquid financial markets in which investors can participate and diversify their risk exists and also that a country's legal system honours and protects ownership of property. While this holds true in developed countries, the same cannot be said in certain developing countries where there is little or no respect for rule of law and in the case of Zimbabwe the general market conditions have been far from ideal.

The Zimbabwean economic environment has also resulted in interest rate distortions where rates are hugely negative and this has had an effect where the capital market is not

fully functional. There is no fluid and active bond market to facilitate optimal capital structure decisions. Other hybrid finance products such as Asset Based Securities are non-existent because of the economic distortions. This has had an effect on the choice of the capital structure of firms.

3.2 Previous Research in Least Developed Countries

The International Finance Corporation (IFC) through its Economics Department launched detailed research into this area of capital structures in Least Developed Countries (LDC) and commissioned several research projects whose findings will be reviewed in this project. Singh and Hamid (1995) as part of the IFC funded project noted that there was a serious lack of knowledge about capital structures in developing countries. Part of the reason of this lack of information was attributed to poor accounting data, which made it very difficult to compile valuable analytical reports. In this first study Singh and Hamid (1995) reviewed nine countries namely: Jordan, India, Malaysia, Mexico, Pakistan, Thailand, Turkey and Zimbabwe. The study set out some research questions, which primarily considered the following issues:

a. *Nature of corporate capital structures in developing countries in the 1980s.*
b. *How corporates in developing countries financed their growth and to what extent was the "Pecking Order Theory" applicable.*
c. *Whether there were any inter country differences in corporate structures and also whether there were similarities with developed countries financing patterns.*
d. *How corporate structures and financing patterns have changed in developing countries during the 1980s.*

e. *Whether corporate structures and financing profiles of companies supported by the IFC were similar to those that were not supported.*

f. *Did fast-growing, developing countries have different corporate structures from unsuccessful ones?*

In conclusion, Singh and Hamid (1995) found out that there were major differences in structures of corporate finance between developed countries and developing countries. They found out that corporates in developing countries used more external finance than their counterparts in developed countries. This was a surprise as the generally held view had been that there is a serious lack of capital in LDC's and also according to the "Pecking Order Theory" companies use internal funds first before resorting to expensive external funds. The second finding was that more than half the companies that were surveyed in LDC's, used a greater percentage of equity rather than debt to finance their growth. This was different from the pattern found in the developed countries such as Japan, France and Italy where previous studies by Whitington (1968, 1975); Singh (1971, 1975); Whitington (1971, 1980); Meeks (1977) and many others had found out that corporates use external financing and to a large extent debt for growth. This research is different in that it considers capital structures for a specific country, Zimbabwe, and goes further in analysing structures of eight listed companies. The research also takes into account the effects of hyperinflation and seeks to understand how companies are financed. Results from Singh and Hamid's paper will be used to compare the difference in the financing structures that have been in operation in Zimbabwe from 1998.

Demirguc-Kunt and Maksimovic (1994) investigated capital structures in a sample of the largest publicly traded firms in ten developing countries-Brazil, India, Jordan, the Republic of Korea, Malaysia, Mexico, Pakistan, Thailand, Turkey and Zimbabwe between 1980 and 1991. Choice of these countries was based on the fact that they had reasonably well developed capital markets and gave a good geographical spread from which one could learn about the diverse experiences out of which conclusions could be drawn about capital structures. Their major finding was that variables that predict capital structures in the United States also predict choices of capital structure in these developing countries. In addition they found out that variables suggested by Agency Theory explained more of the variation than variables suggested by tax based theories. For both short term and long term equations in most of the countries sampled, they also concluded that asset structure; liquidity and industry effects had more explanatory power than firm size, growth opportunities and tax effects. Finally they concluded that in most countries, total indebtedness was negatively related to net fixed assets, suggesting that markets for long term debt do not function properly. It is interesting to note that this study also covered part of the South American financial crisis where Brazil's average annual inflation was 327% with Mexico's at 66% followed by Turkey at 44% but in the case of Zimbabwe, the country had just attained independence and had inherited a fairly robust financial services sector. Average annual inflation for Zimbabwe was 12.5% compared to the current 7634.8% (Financial Gazette Business Report 23 August 2007). While the study looked at Brazil and Turkey under hyperinflation the levels were no where near the present situation in Zimbabwe. In addition, the issue of rule of law in terms of respect of private property was not taken into account. All the same, the results and findings of their

paper will be analysed further and compared to the findings of the current situation in Zimbabwe. This research takes the subject further and focuses on just one country and seeks to provide a new insight on the behaviour of companies when the external macro-economic environment is far from normal.

Stark (1996) in his study on Determinants and Trends Of Capital Structures of Listed South African Industrial Companies 1975 to 1993 argues that high interest rates cause companies to choose one of two routes;

(i) to be risk averse and maintain low gearing or

(ii) to seek maximum debt structure to utilise tax benefits.

He further argues that in South Africa when interest rates were high, companies reduced their usage of long term debt across all sectors and instead used off balance sheet financing for vehicles, building and plant and equipment. In addition he concluded that industrial classification was a determinant of debt ratios as firms tended to have similar gearing ratios depending on their industry. This study was very limited in scope and did not delve beyond the outlined areas. In addition the study was premised on a stable developing economy and as such did not provide insights into a hyperinflationary environment.

Ramos (1998) in a study on capital structures and portfolio composition during the banking crisis in Argentina in 1995 looked at how banks rationalised their portfolio composition and capital structures following a period of financial distress. The study concluded that there was positive covariance between asset risk and banks own capital.

Banks were the only industry that the study considered whereas this study did not include financial institutions as it was felt that they belonged to a special area and their definition of capital structure differed significantly from that of corporates in other sectors.

Medeiros and Daher (2001) in a study entitled Testing The Pecking Order Theory of Capital Structure in Brazilian Firms looked at capital structures of 132 listed companies in Brazil. The objective of the study was to test if the Pecking Theory applied to the Brazilian firms. In their findings they concluded that the Pecking Theory in its weak form was applicable to Brazilian firms but did not hold in its strong form. Their analysis also showed that the goodness of fit of the Brazilian regression was significantly better than those reported for American firms and that Brazilian firms seemed closer to the Pecking Order's strong form than the American ones. This study goes beyond just looking at Pecking Order and tests other finance theories and also seeks to understand capital structures in a hyperinflation environment.

In conclusion, an overview has been provided into how companies select the optimal capital structure but most of the prior research that has been done on LDC's has been conducted in stable developing economies and as such, did not provide insights into a hyperinflationary environment such as the one that Zimbabwe is currently experiencing. None of the literature that has been reviewed shows that research has been conducted for a specific country and the previous research has focussed on stable economies. This research is therefore different in that it considers capital structures for a specific LDC country, Zimbabwe, which is an abnormal macro environment.

The next chapter defines hyperinflation and also gives some background about the Zimbabwean economy.

CHAPTER 4: HYPERINFLATION AND BACKGROUND ON ZIMBABWEAN ECONOMY

4.1 Introduction

The chapter provides a definition of hyperinflation and also provides some background on the Zimbabwean economy and highlights the key issues that have confronted the private sector during the period 1998 to 2007. The definition of hyper inflation is provided to help understand the analysis which follows in the findings section.

4.2 Hyperinflation

Broadly, inflation is described as the rate at which the general level of prices for goods and services is rising, and subsequently, purchasing power is falling. There has been considerable debate of what rate would qualify to be termed as hyperinflation. Mohr (2000) describes hyper inflation as a persistent increase in prices and also as a complicated, dynamic process which can be analysed in a number of different ways one of which is the imbalance between claims and contributions to the national economy. Mohr (2000) argues that inflation is not an economic phenomenon but a political and economic problem.

The dominating theme in inflation theories is that there is a clear correlation between prices and money supply. Literature not only provides a large body of evidence that this link does exist but also goes further to suggest that money supply appears to be the root

cause of inflation (Cagan, 1956; Sargent, 1982; Edison, 1983: Deane & Pringle,1994; Debelle & Fischer,1994).

It is important to note that there is a difference between chronic cyclical inflation and a steady ongoing inflation, which is usually referred to as hyperinflation. Chronic cyclical inflation is defined as the state of continually rising prices in the economy while hyperinflation is often described as the state when inflation is proceeding at abnormally high rates. Lafalaise (2002) defines hyperinflation as any rate which is higher than 80% per month. Cagan (1956) suggests a purely "arbitrary" definition: the period with monthly inflation rates of 50%.

The IMF (2001) published a report with a list of countries whose rate was defined as hyperinflation. Zimbabwe is one of the countries which are cited in the IMF report as experiencing hyperinflation. We have accepted the definition of hyperinflation as high sustained inflation which is higher than 80% on year on year basis. The latest year-on-year unofficial inflation figure which is for October 2007 was 14841% and a month on month figure of 136% consequently the highest in the world (Zimbabwe Independent). The Central Statistical Office has not produced an updated figure due to the consumer goods shortage triggered by price controls making computation difficult.

This study does not intend to delve into the debate of what rate would be accepted as hyperinflation as this is not the main focus of the research and simply uses 80% as the cut-off.

The reason for doing so is to determine whether there are differences in the manner companies finance operations under hyperinflation.

Whittington, Saporta and Singh (1997) concluded that hyperinflation can cause significant distortion on the corporate finance patterns of firms and employed a method of adjusting the inflation accounts for companies in Turkey for the period 1982-90. They concluded that the figures that they obtained gave a better and more realistic picture of company performance than the unadjusted historically stated financial statements. Based on this analysis Whittington et al. (1997) concluded that corporates operating in a hyperinflationary environment tended to rely more on external finance for growth than internal finance and also that companies relied on the issuance of new shares to a large extent. This conclusion was in support of previous findings by Singh and Hamid (1995) and contradicted the Pecking Order Theory, which states that companies first of all use internal funds for growth before seeking external sources. To enable the same understanding, this study used inflation-adjusted accounts that were presented by the target companies in Zimbabwe.

In a recent study, Chamisa (2006) concludes that Zimbabwean investment analysts are not using inflation-adjusted accounts in their evaluation of listed companies. According to Chamisa (2006), the analysts perceive information provided by hyperinflation-adjusted financial statements to be of little use and they posit that company executives have limited understanding of hyperinflation adjustments and generally think that the value of these adjustments is not commensurate with the cost of making such adjustments. The

actual use or perceived use of hyperinflation-adjusted accounts by capital markets in emerging markets has not been well researched (Chamisa, 2006:5). This therefore suggests that there has been little research on capital structures for companies operating under hyperinflation. The lack of knowledge provides an opportunity for this study to give some insight into how companies finance their operations under hyperinflation and whether capital structure theories as previously stated are applicable. Chamisa's (2006) research was primarily directed at understanding the usage of hyperinflation-adjusted financial statements while this study utilises inflation-adjusted accounts to analyse the capital structures of selected corporates in Zimbabwe.

The next section provides a brief background about the Zimbabwean economy, which helps to understand some of the external factors that have influenced the way companies have operated.

4.3 Background on the Zimbabwean Economy

The Zimbabwean economic decline has been gradual over the years with the adoption of socialist policies in the eighties and the subsequent adoption of the IMF prescribed Economic Adjustment Programmes in the nineties which proved detrimental and escalated the decline. The country experienced a major drought in 1995, which resulted in the destruction of the crop yields, and during the same year the International Monetary Fund (IMF) suspended balance of payments support due to policy differences with the government. The economic decline trigger point was what is commonly referred to as the 'Black Friday" which was on the 14th of November 1997 when the currency declined by

75%. The Central Bank had to suspend trade in the currency to prevent further decline. This is largely attributed to two factors i.e. the awarding of Z$50,000 unbudgeted for gratuities to liberation "war veterans". (Equating to USD$ 2800 each then and payouts of ZD$2000 monthly pensions for life). This triggered an economic crisis that was already looming as evidenced by the slowdown in GDP growth. The payouts were funded through printing money which is a major inflation driver via increased money supply. The second factor was the announcement by the Government of the implementation of the 1993 Land Redistribution Act, which stipulated the redistribution of 1500 white commercial farms (Source Political Reawakening in Zimbabwe, Peter Bond 1999)

The anticipated economic decline with the increased money supply growth triggered high levels of inflation and plunged the economy into further decline. Further, the economy suffered from a lack of domestic investment given that returns were less than the rising rate of inflation. In 1998 the economy grew by a sluggish 1.6% compared to previous growth rates of 3.2% and 7.6% which were experienced in 1997 and 1996 respectively. The main factor that affected the low growth rate in 1998 was the below par performance of the key sectors of the economy: agriculture, mining and industry.

Appendix 1 shows the levels of inflation, which the country has experienced as from 1998 right up to 2006. By the beginning of 1998 the country's year on year inflation (y-o-y) was 24% and continued to worsen from this level. World commodity prices collapsed during 1997 and 1998, which in turn affected foreign exchange inflows.

Against this background, the Zimbabwean government embarked on a borrowing spree which effectively "crowded out" the private sector and forced interest rates to rise. Government spending was financed through issuing long term bonds whose interest yield meant an increase in domestic debt. This resulted in a contraction of the economy with industries being forced to shed labour and downsize their operations. Decisions by corporates to finance growth as from 1998 were therefore influenced by the prevailing macroeconomic environment that has continued to worsen to date. These decisions tended to favour debt, which is the usual trend in a hyper inflationary environment if cheap debt is available as the costs of leverage, are offset with the loss of value of money due to inflation.

4.4 Literature Review Summary

In concluding the literature review it is noted that the subject of capital structures dates back to the Miller and Modigliani (1958) paper and that since then a lot of work has been undertaken to understand better how companies are financed. The IFC has funded several studies that have been targeted at Least Developed Countries seeking to build a knowledge base on how companies operating in these countries are financed as well as how their capital structures are organised. Findings to date indicate that corporates in developing countries tend to rely more on external finance to support the growth of their assets and that this external finance is equity related which is different from the observation of corporates in developed countries who tend to use debt finance to grow the business with equity finance accounting for a very small portion of sources of external

finance. A few studies have been done on corporates operating under extreme hyperinflation.

All previous studies of LDC capital structures used historical cost accounting until Whittington et. al (1997) applied the Constant Purchasing Power method to adjust accounts for hyperinflation. Whittington et. al analysed the capital structures for Turkish companies using the CPP method and found out that the financial ratios were distorted by hyperinflation.

It was found that companies in Zimbabwe since 2000 have been presenting both inflation adjusted accounts and historical cost accounts. For the purpose of this study, inflation adjusted accounts were used for the analysis of capital structures and in the next section we present the methodology that was applied.

CHAPTER 5: METHODOLOGY

5.1 Introduction

This chapter provides an outline of the methodology that was used to conduct the research. A detailed presentation is given to justify why a particular approach was used and also the shortcomings of the given approach. The study was conducted using both quantitative and qualitative techniques. Quantitative techniques were employed in dealing with the data that had been obtained from the financial statements of the companies that were studied while qualitative techniques were used mainly in the reviewing of literature to support the theoretical framework of the research as well as the analysis of the annual reports of the companies being studied.

Out of the total of seventy five companies that are listed on the ZSE, eight companies were selected for the analysis. The companies were inserted into the following categories; industrial and processing sector, mining sector, hotels and leisure sector, telecommunications sector, food retail sector. The financial services sector was not included in the analysis due to the fact that capital structures were mainly driven by regulatory requirements from the Reserve Bank of Zimbabwe and therefore the patterns that emerged might not have been as a result of choices by management. The selection of the companies was random. A background of the companies that were selected is provided in the section that deals with the analysis.

Included in this chapter is a description of the research process followed by a discussion of the research design and then a discussion of the research plan as well as the data collection methods. Using the data that was available the following determinants of capital structure were analysed-size, tangibility, profitability and non-tax debt shield. It is important to briefly summarise the theoretical framework about these variables and also select the correct proxies for them.

5.2 The Variables

5.2.1 Profitability

Capital structure theories do not provide the same prediction on the issue of profitability. While the trade-off, signalling and agency theories predict a positive relationship between profitability and leverage, the pecking order theory predicts a negative relationship. For the purposes of the study, (Earnings Before Interest and Taxes) EBIT was used as the proxy for profitability.

5.2.2 Non-Debt Tax Shields

Trade off theory is the only capital structure theory, which deals with the effect of taxation on gearing. In brief, the theory says that as the tax liability increases companies tend to increase their debt. However, it must be noted that there is no single top tax rate in any given year and therefore this cannot serve as a good measure for taxation and therefore non-debt tax shields will be used instead. Under the non-debt tax shield we understand the tax deduction for depreciation and investment tax credits. Since non-debt tax shields are substitutes for the tax benefits of debt financing (the deduction of interest

expenses from taxable income) a company with larger non-tax shield, ceteris paribus, is expected to use less debt. In other words, one expects a negative relationship between non-debt tax shield and leverage. The proxy used for non-debt tax shield is depreciation over total assets.

5.2.3 Tangibility

The trade off and agency theories state that tangibility is positively related to gearing. The rationale behind this is that the greater the tangible assets that a company has the more its ability to raise secured debt, which is generally cheaper than, unsecured borrowings. In any case the value of tangible assets should be higher than intangible assets in the event of bankruptcy. Companies with significant tangible assets have historically been able to attract investors alternatively they should be able to raise capital to finance operations. As discussed previously, the pecking order theory leads us to a different conclusion due to the fact of lower information asymmetry for firms with higher tangibility of their assets. In the case of this study, the ratio of tangible assets to total assets is selected as a proxy for tangibility of assets.

5.2.4 Size of the Firm

Size of a firm tends to be an inverse proxy of the probability of bankruptcy of a firm. Small firms with low and irregular cash flows face a high possibility of bankruptcy while larger firms due to their diversified and more stable cash flows tend to have lower risks of bankruptcy. In line with the trade off theory, size is expected to be positively related to leverage. Rajan and Zingales (1995) argue that this positive relationship will not be

strong if the costs of financial distress are low. A positive relationship of size and leverage links up with the agency theory which argues that bigger firms are able to borrow at lower costs and have easier access to capital markets because of information asymmetry. In line with the majority of previous studies we have used the natural logarithm of sales to capture the size effect on the leverage of firms and by doing so, we imply that size effect on leverage is non linear.

5.3 Research Process

A detailed literature review was undertaken in order to be informed about previous work that has been done on the effects of hyper-inflation on capital structures. During the literature review, definitions of key research themes were provided to assist in an understanding of the subject at hand. The literature review set boundaries for the research.

The research went back as far as 1998 and financial statements of the targeted companies were collected and captured. Annual reports of the selected companies were reviewed as they provided some commentary and notes to the financial statements which was used in the research and assisted in the understanding of how capital structures had evolved during a hyper-inflation environment. Notes to the financial statements were important in that they provided insights into how various items on the financial statements had been computed. The financial statements of the eight companies which were studied are at Appendix 3. Inflation adjusted accounts were provided by the selected companies using accounting standard IAS29. Companies in Zimbabwe have been presenting final year end accounts with both historical cost accounting and inflation adjustments on a voluntary

basis up until the Zimbabwe Stock Exchange insisted that all listed companies had to comply with IAS29. Unlike Geoffrey Whittington et all 1997, this study utilises the inflation adjusted accounts to arrive at conclusions about the effects of hyper-inflation on capital structures.

Consumer price index figures (year on year inflation) were collected from 1998 and are shown at Appendix 1. The data was provided from the Zimbabwe Central Statistics Office. This data was analysed and provided a framework which was used in the research to determine a cut off point when it was considered that there was hyper-inflation in Zimbabwe. The reason this was done was to enable a comparison of capital structures prior to and during hyper-inflation so as to arrive at conclusions.

5.4 Research Design

A sample of eight different companies out of the seventy five listed ones was studied. The companies were allocated to different sectors as explained earlier. While it can be argued that the sectors that were allocated to the various companies are sometimes not unique and different, a criteria was used which looked at the key business area of the given companies and on this basis an allocation was made. The companies and sectors that were selected for the study are listed in the Table 2 below:

Table 2 Summary of Sectors and Companies

1	**Industrial and Processing Sector** Astra Industries Limited Delta Corporation
2	**Mining Sector** Bindura Nickel Corporation Limited Hwange Colliery
3	**Hotels and Leisure** Zimbabwe Sun Limited TA Holdings
4	**Telecommunications** Econet Holdings
5	**Foodstuffs and Retail** Ok Zimbabwe Limited

A random sample of ten percent of the listed companies gave a reasonable insight about capital structures of Zimbabwean companies under hyperinflation. It is however, possible that conclusions arrived at in the research might not be fully representative of all the companies given the limitations in the selection of a random sample. This particular aspect will be examined during data analysis and relevant comments made depending on the findings. The next section discusses the different ratios that were analysed and the methodology used in the computations.

5.5 Capital Structures-Financial ratios

One key ratio was analysed for each one of the companies under study. The ratio is debt to equity. A brief explanation is provided below on how the ratio was computed.

In addition to the above turnover and profitability trends were also analysed to assess the impact of the different capital structure scenarios on the value of the firm.

5.5.1 Debt to Equity Ratio

Debt to Equity was determined by the formula:

$$\frac{\text{Total Debt}}{\text{Equity}}$$

Total Debt was defined as the sum of all interest bearing debt.

In addition the study examined short-term borrowings by the selected companies to determine whether there was a preference on usage of short term funding instead of long term funding given the hyper-inflation environment. In particular the research sought to establish the changes over time with respect to short term borrowings for the target companies.

5.6 Interest Rates

Appendix 2 is a schedule of interest rates since 1998; the figures were obtained from records at the Reserve Bank of Zimbabwe and were later on used in the analysis. The Reserve Bank of Zimbabwe occasionally intervened and offered concessionary interest rates for companies in the productive sector. The study reviewed these interventions and critically examined their impact on capital structures.

CHAPTER 6: FINDINGS

6.1 Introduction

This chapter discusses the findings of the research and presents the results of the research. The chapter articulates the findings and analyses the following: each of the different companies within the selected sector, cross section analysis and an overall analysis of the sample of eight companies. The analysis is conducted to bring out the major insights which are discussed to answer the research questions and ultimately address the research objectives.

6.2 Company Analysis

6.3 Industrial and Processing Sector

6.3.1 Astra Industries Limited

Background

This company, originally known as Astra Holdings Limited, was founded in 1939 and was registered on the Zimbabwe Stock Exchange in 1974 under the conglomerate sector. During 2001, Astra Limited Group was demerged into three companies namely Astra Industries limited, Cairns Holdings and Tractive Power Holdings Limited now separately listed on the Zimbabwe Stock Exchange.

The group now comprises of Astra Chemicals (Pty) Ltd, Astra Industries Ltd, Astra Paints Division, Astra Steel & Engineering Supplies Division and Celmid (Pty) Ltd trading as Chemical Enterprises. The major shareholder with 65% is the Finance Trust of Zimbabwe, which is a subsidiary of the Reserve Bank of Zimbabwe.

Astra Analysis

Astra's debt to equity ratio followed a downward trend indicating that the company was reducing debt from the period 1999 to 2006 as shown in Graph 1. Equity funding in a hyperinflationary economy tends to be a long and tedious process where the anticipated funding requirements are usually overtaken by inflation. This is evidenced by the company not conducting a rights issue or other stock market corporate activity as a means of raising capital, leaving retained earnings as the only sources of capital to fund the business.

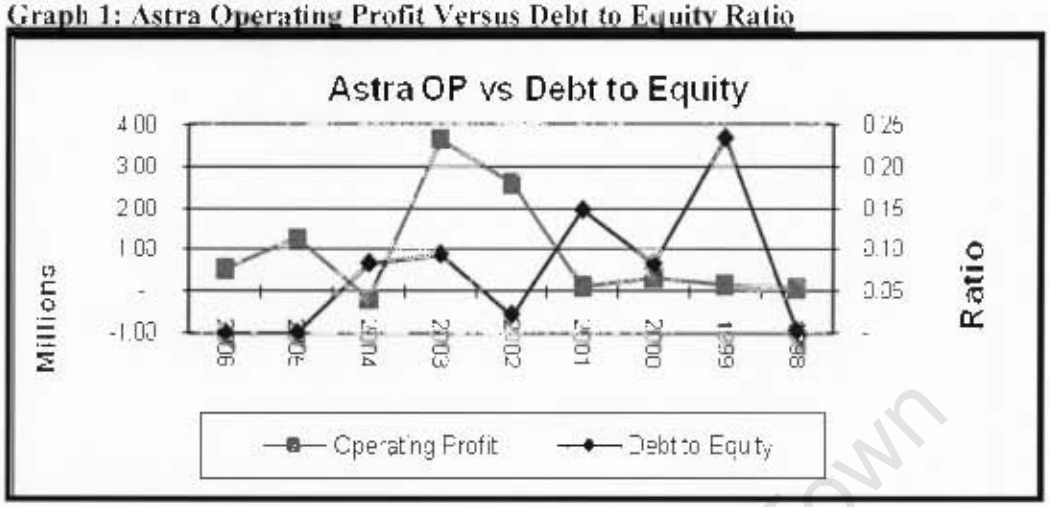
The trade off theory is supported by the trend noticeable in 2001 when the firm started unwinding their debt as a result of the increased concern over financial distress arising from the increase in interest rates to levels as high as 900%. There is a marked decline in profitability and this resulted in the long-term debt level being reduced. The increase in interest rates is also evident in the spike in the interest paid between 2004 and 2005 and this supports the need for the shift from debt funding to retained earnings. The company suffered a loss in 2004 as a result of increased finance costs due to the above mentioned increase in interest rates.

The pecking order theory where information between investors and management is asymmetrical was evident in the reduction of debt. In addition, the strategy to adopt a debt skewed structure was reversed as interest costs started to impact negatively and there was an evident decline in profitability especially in 2005 when the company made a loss.

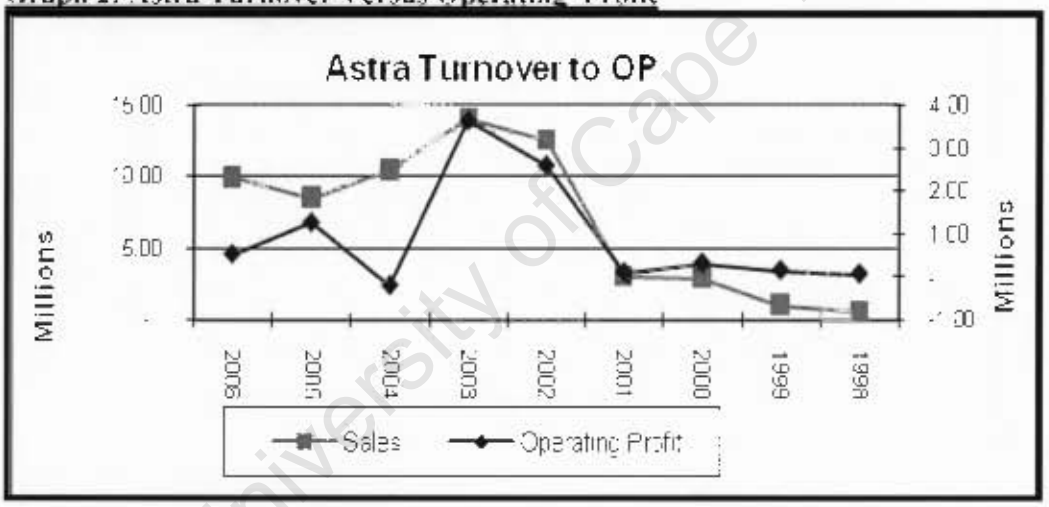
The asset structure, considering the manufacturing nature of the business, shows that tangible assets constituted the bulk of the total assets of the firm in 1998. The trend changed thereafter until 2003, and started to increase again as shown in Graph 3. This explains why the company was able to borrow by leveraging off its assets during the period 1998 to 2000. The increase in tangible assets in 2003 can be attributed to appreciation in real value even in a hyperinflationary environment, and can be easily liquidated in the event of financial distress.

The increase in operating profit was in tandem with increase in turnover but the improvement in cash flow did not translate into increased long term debt. Most of the debt the company carried was very short term debt as depicted by the level of current liabilities.

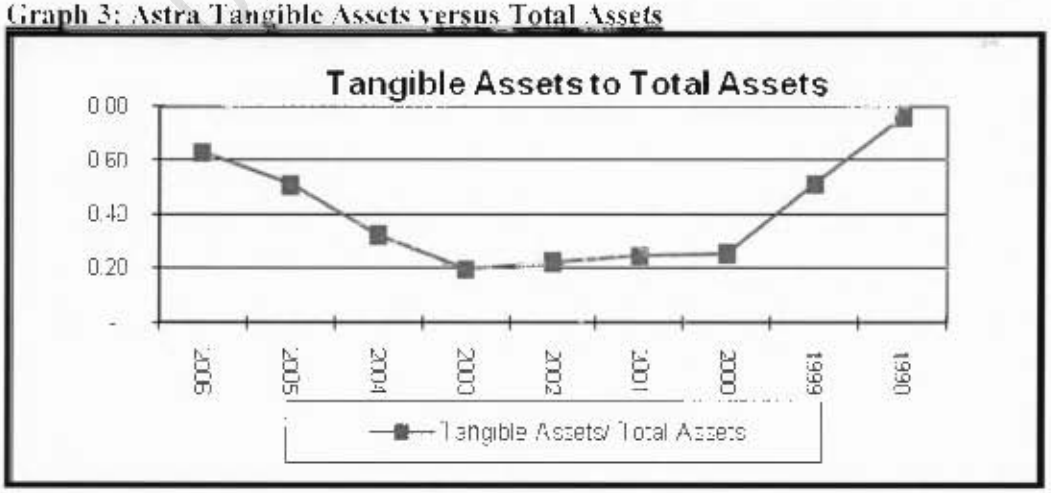
Graph 1: Astra Operating Profit Versus Debt to Equity Ratio



Graph 2: Astra Turnover Versus Operating Profit



Graph 3: Astra Tangible Assets versus Total Assets



6.3.2 Delta Corporation Limited

Background

Delta is a holding company that was listed on the stock exchange in 1946. Delta was initially a conglomerate with shareholding in OK Zimbabwe a retailer, Zimsun an hotelier and Delta Beverages the main operation. These units were de-merged from the group to unlock value and focus on the main line of business, which is the beverages industry. The company's main operations are brewing, non-alcoholic beverages and agro-industries. The main business units are Delta Beverages, which is 100% owned as well as African Distillers an alcoholic beverage manufacturer, mainly spirits. African Distillers is 31% owned by Delta. Its major shareholders are Old Mutual Life Assurance Company with a 28.3% shareholding and SABMiller with a 36% shareholding. Delta has diversified through the acquisition of a controlling stake in another listed entity Ariston Holdings, which is an agro-processor.

Delta Analysis

Delta enjoys a blue chip status on the Zimbabwe Stock Exchange and is one of the largest companies on the ZSE in terms of market capitalisation. It is also the largest beverages company in Zimbabwe and competition is insignificant with Delta commanding the sole manufacturing and distribution rights of Coca-Cola in the country. The size and blue chip status gives it favourable finance options as banks compete to lend the company funds. Delta was hugely profitable from 1999 to 2001 as is depicted by Graph 5 below but there was a huge decline in the profitability thereafter. The total long term liabilities increased with the profitability and vice-versa. This was in conformity with the agency and

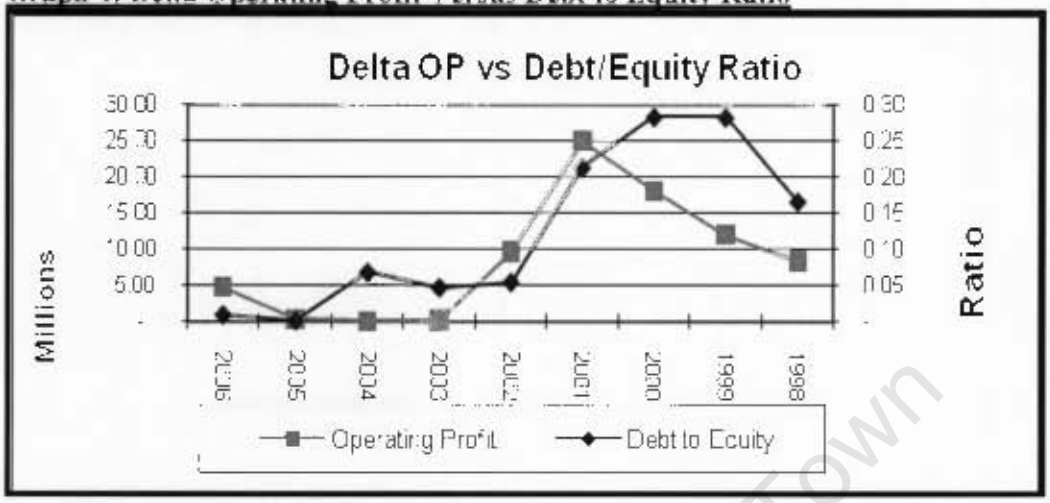
signalling theories, which predict a positive relationship between leverage and profitability.

The business primarily operates on a cash basis with huge cash flows and this also precipitated the increase in the debt carried as the bankruptcy costs tend to be lower for bigger firms with blue chip status and a consistent cash flow. This is in line with the advocacy of the agency theory where leverage is positively related to the size of the firm and consistency of cash flows. Though the company carried long term debt despite a serious indication of financial distress, Delta was able to access the Reserve Bank concessionary debt meant to stimulate economic productivity because of its blue chip status.

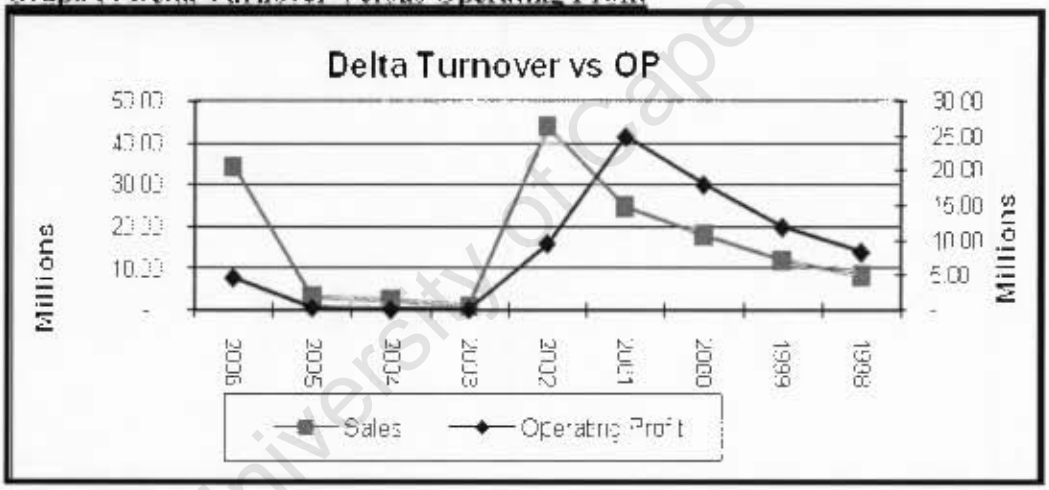
Short term debt was also significantly reduced between 2002 and 2003 as profitability dropped significantly. This reduction was in conformity with the signalling theory which predicts that management's capital structure decisions are a direct function of their outlook on profitability and the information they have at hand. The trade off theory was also proved true in that instance as the level of interest rates shot up and the cost of debt outstripped the potential benefits.

Delta operates huge plants and machinery which act as security and offer collateral enabling the company to access more debt. Most of the firm's assets are tangible thus supporting the trade off and the agency theory where gearing is positively related to the tangibility of the assets.

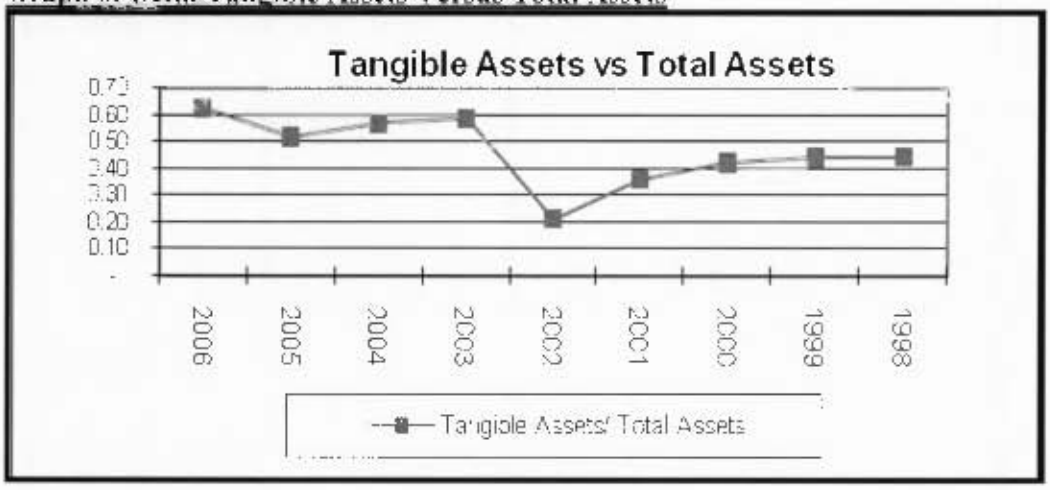
Graph 4: Delta Operating Profit Versus Debt to Equity Ratio



Graph 5: Delta Turnover Versus Operating Profit



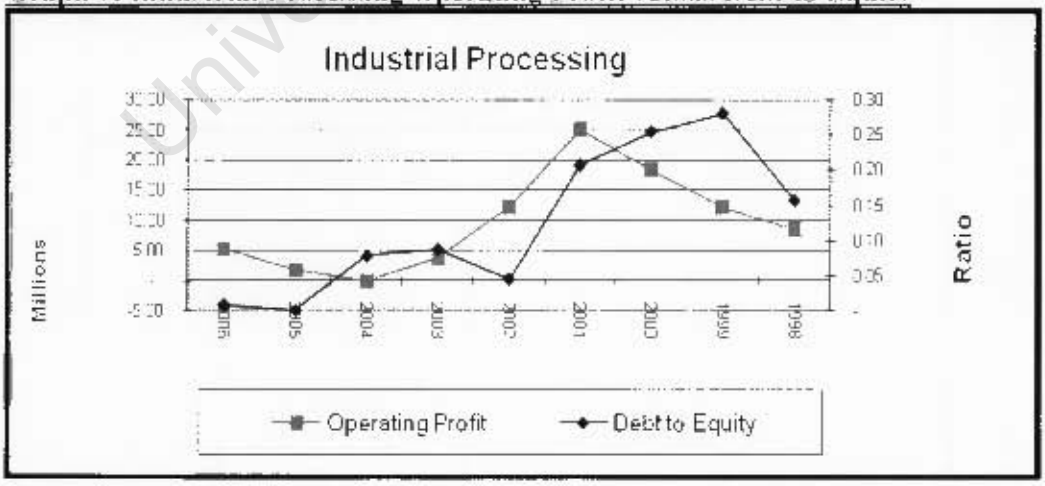
Graph 6: Delta Tangible Assets Versus Total Assets



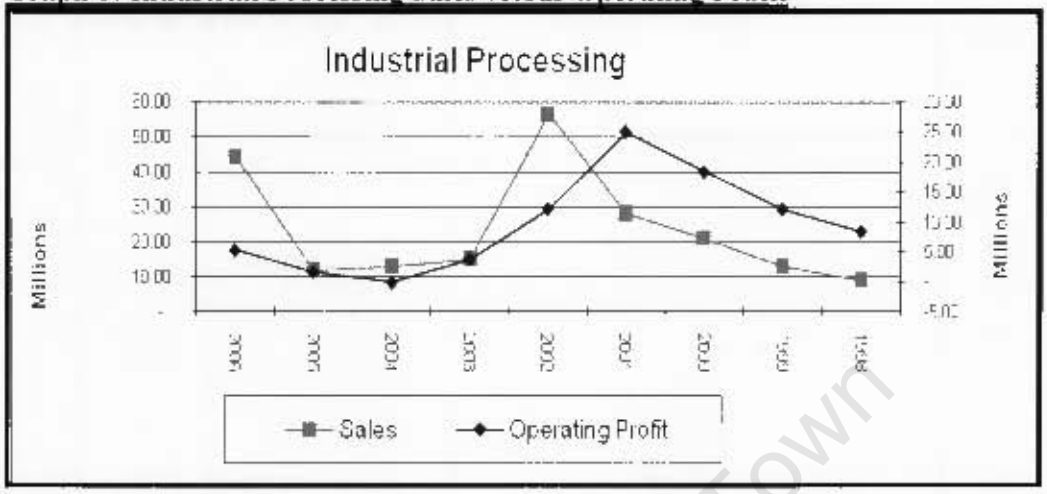
6.3.3 Industrial and Processing Sector Analysis

To conduct an analysis of the industrial processing sector, simple averages for the two companies, Astra and Delta were computed. From 1998 to 2000 the industries long term liabilities increased in tandem with debt. During the same period both revenue and profitability increased significantly, signifying the agency and signal theory, which state that the level of gearing a company carries increases in line with profitability. As earnings became uncertain due to the deteriorating macro economic environment which was characterised by high interest rates, hence high borrowing costs, the industry borrowed less. The asset structure of the industry shows that tangible assets constitute most of the total assets and are not correlated to debt, which is in contrast to the key predictions of the trade off theory. The industry enjoys the ability to borrow and secure the borrowings with tangible assets.

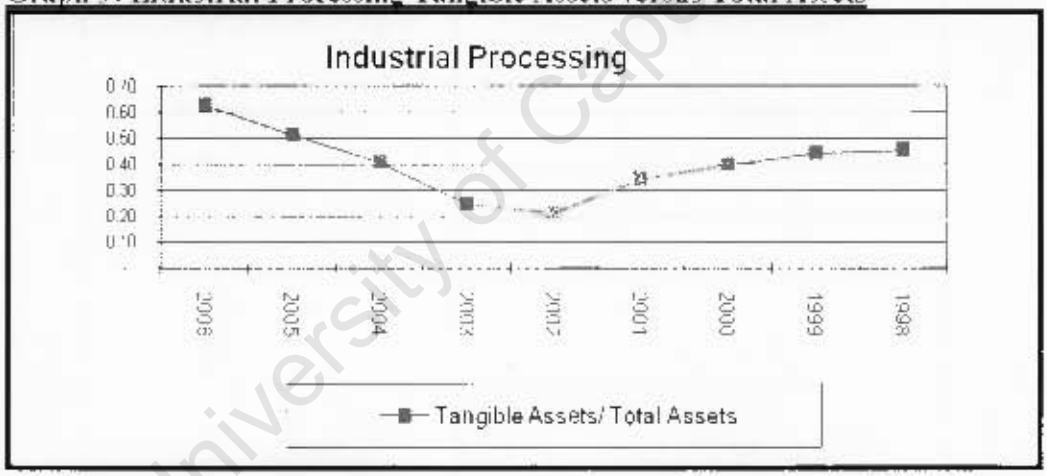
Graph 7: Industrial Processing Operating Profit versus Debt to Equity



Graph 8: Industrial Processing Sales versus Operating Profit



Graph 9: Industrial Processing Tangible Assets versus Total Assets



6.4 MINING SECTOR

6.4.1 Bindura

Background

Bindura Nickel Corporation (BNC) was formerly part of the Anglo-American stable before being sold to a consortium of African businessmen, trading as Mwana Africa.

BNC is the largest producer of nickel in Zimbabwe, with two active mines Trojan Nickel Mine and Shangani Mine. In addition to its own mines, the group also undertakes toll refining for a number of third party nickel miners both local and regional. Toll refining normally contributes approximately 5% of total revenues.

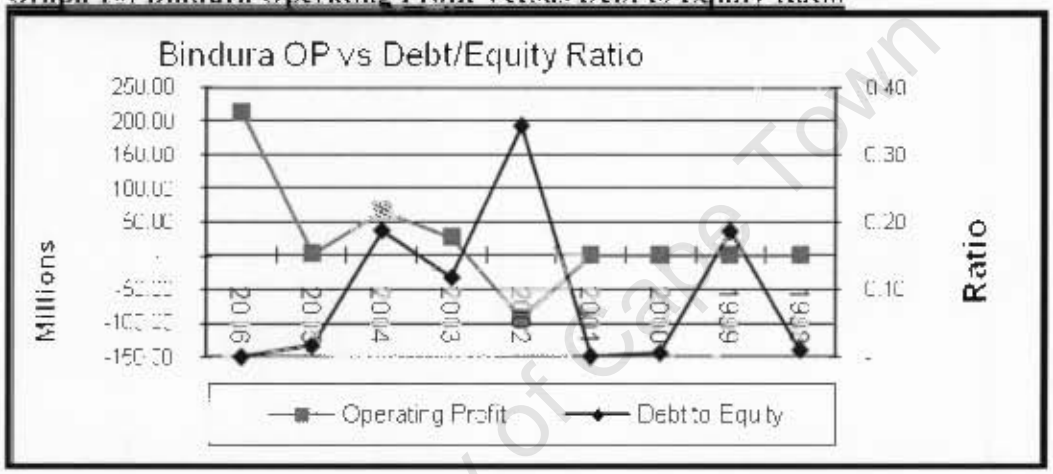
Bindura Analysis

The main revenue stream for Bindura comes from exports of nickel which is susceptible to changes in world prices. The exchange rate is also a factor in determining the level of earnings. This has been a major challenge in Zimbabwe for the company. The company did not undertake any rights issue or corporate action related to equity as a finance mechanism as evidenced by the shares in issue which remained at 126 million from the year 2000 to date.

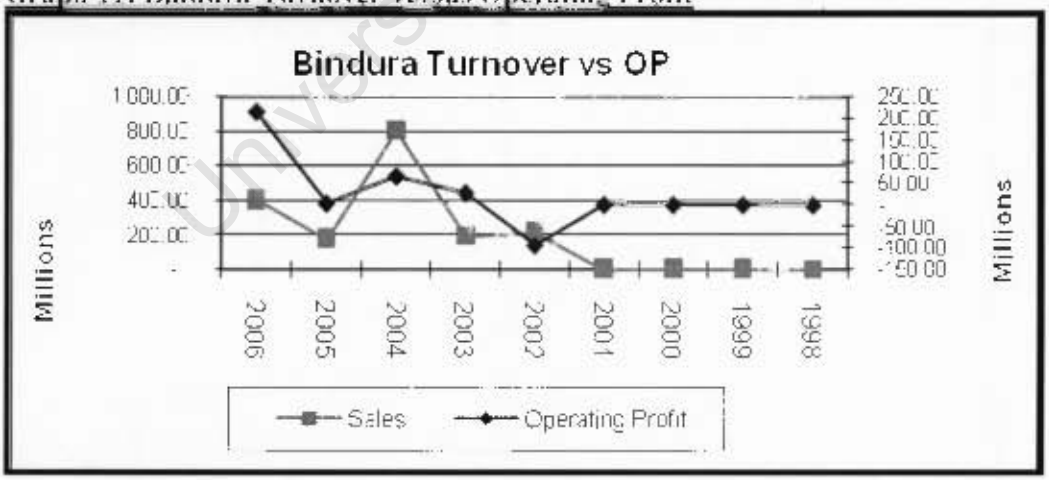
The operating profit showed a lot of volatility during the period under consideration even though it has been at break even point for most of the period. There is a noticeable trend between 2000 and 2003 where profitability and leverage moved in opposite directions. As the company sank deeper into a loss position the level of debt was increasing. This is in direct defiance to the signalling and agency theories which predict a positive relationship between leverage and profitability. The trade off theory in its weak form was proved true though as the strategy adopted by the company to carry debt despite reduced profitability over a sustained period of time proved that the cost of debt and the increased risk of bankruptcy were outweighed by the benefits of carrying the debt. The tangibility of its assets also contributed to the level of debt the company carried.

According to press reports the company's ore reserves are estimated at USD 2 billion and these tangible assets enabled the company to access long term debt. The graph below indicates that there was no correlation between the level of debt the company carried and profitability as the two moved in different directions.

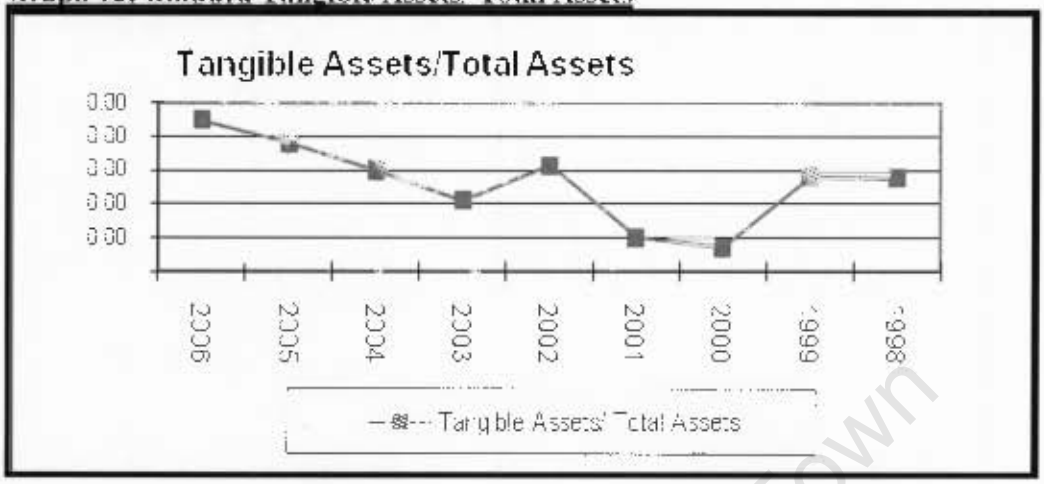
Graph 10: Bindura Operating Profit Versus Debt to Equity Ratio



Graph 11: Bindura Turnover versus Operating Profit



Graph 12: Bindura Tangible Assets/ Total Assets



6.4.2 Hwange Colliery Company Limited

Background

The company's origins date back to April 1899 when the then Wankie Coal, Railway and Exploration Company were registered, and were reconstructed in 1909 as Wankie Colliery Company Limited. The company is currently registered on the Zimbabwe, London and Johannesburg Stock Exchanges. The company changed its name to Hwange Colliery Company in the last quarter of 2007. Hwange is the leading Coal Producer in Zimbabwe mainly involved in Open Cast Mining, Processing, Underground mining and also operates a Coke Plant. About 72% of all the coal mined at Hwange goes towards meeting Zimbabwe's energy needs.

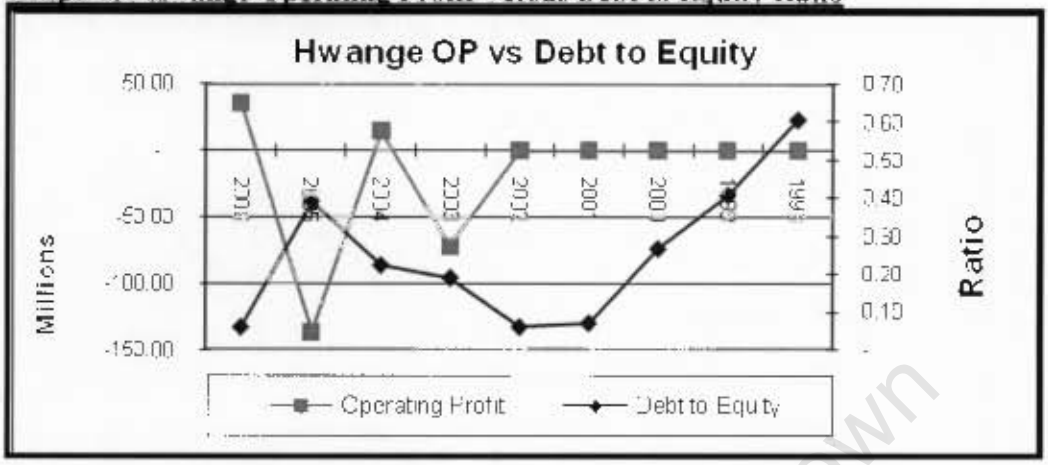
Hwange Analysis

The largest shareholder in Hwange is the Government of Zimbabwe. The company has continued to haemorrhage in terms of profitability as depicted by graph 13 below. The

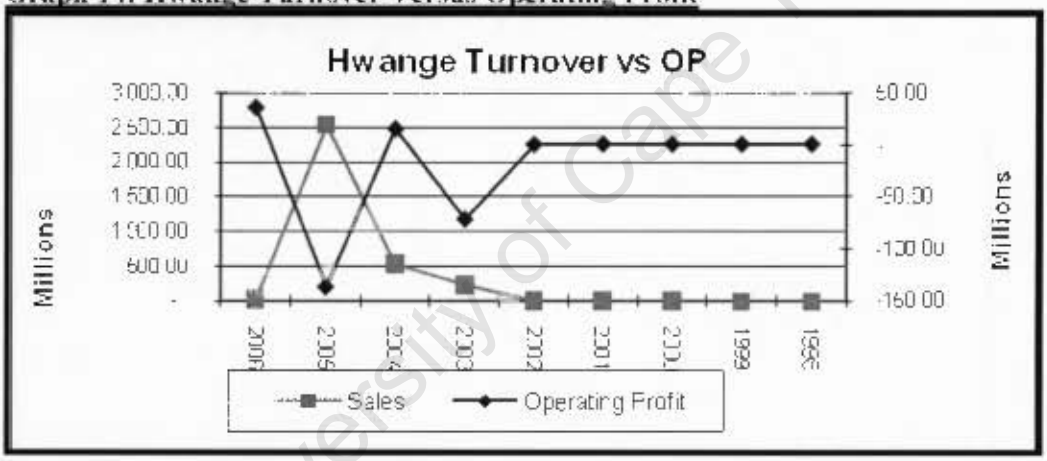
firm has barely made profit for most of the period from 1998 to 2005. The level of debt was significantly high as evidenced by a debt to equity ratio of 1.6:1 from 1998 to 2002. This skew towards debt defies the agency theory and the signalling theory, which predicts a positive relationship between debt and profitability, was sustained as a result of the fact that most of the debt carried was from the major shareholder which is the Government of Zimbabwe. The level of debt was, however, significantly reduced between 2002 and 2003 as shown by the debt to equity ratio which fell to 0.4:1. The ratio on the graph below indicates a level of 1 between 2003 and 2004 before a small potion of long term debt was carried. The trend, however, showed signs of reversal as the level of leverage started increasing as the company's profitability position improved between 2005 and 2006, which supports the agency and the signalling theories, though at a much slower pace.

Hwange`s main assets are heavy machinery as well as biological assets in the form of coal reserves. The tangibility of these assets was not the reason why the company was able to carry debt despite sustained losses, the principal shareholder which is the government, provided the debt. In conformity with the pecking order theory, which predicts that debt is the least preferred form of financing, the company started unwinding their debt as profitability significantly improved between 2005 and 2006. The debt to equity ratio decreased from 0.4 to slightly below 0.1 as shown in Graph 13.

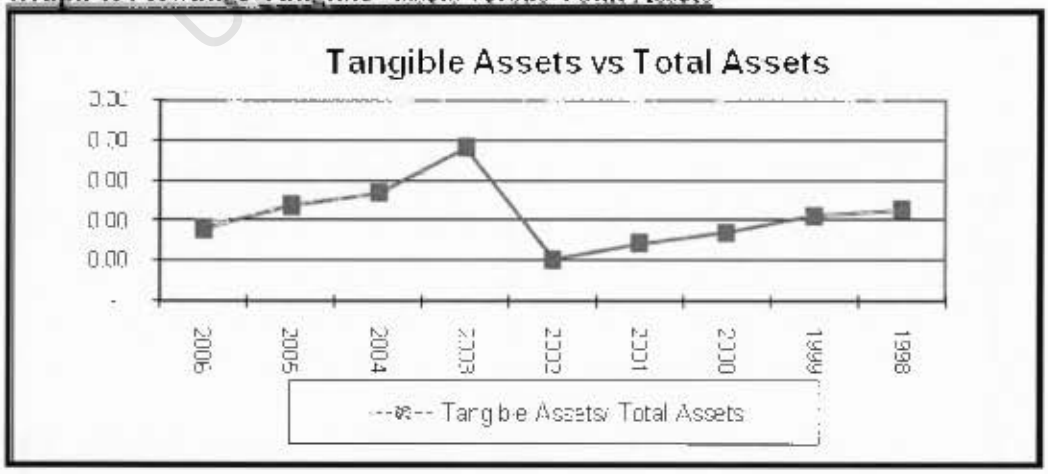
Graph 13: Hwange Operating Profit Versus Debt to Equity Ratio



Graph 14: Hwange Turnover Versus Operating Profit



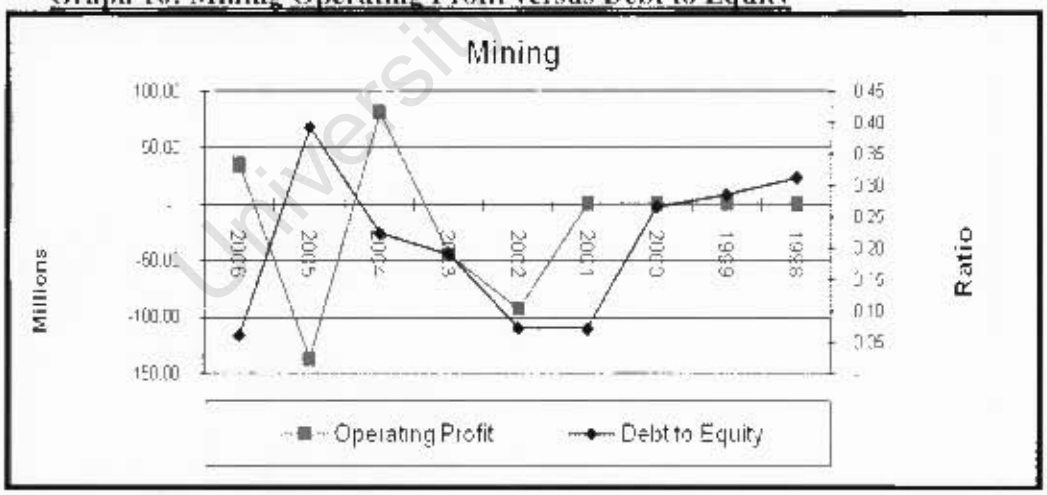
Graph 15: Hwange Tangible Assets versus Total Assets



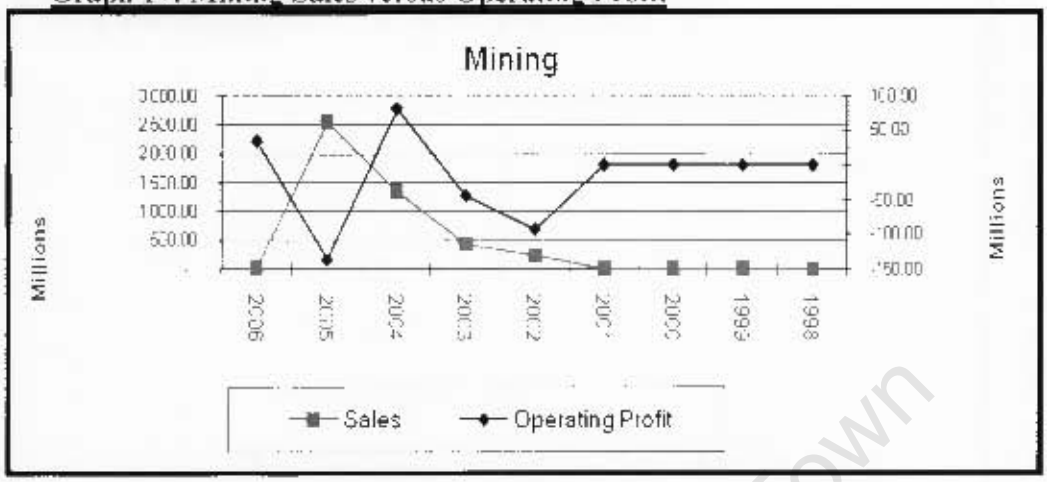
6.4.3 Mining Sector Analysis

Hwange and Bindura were assessed in the mining industry analysis. The mining industry faced a lot of volatiltiy. The sector's debt is directly linked to the tangible assets as indicated in Graph 16 and Graph 18 respectively, suppoting the trade off and agency theory. However, from 2003 on to 2006 ,a negative relationship exists between gearing and profitabilty, which is a strong signal that the financing structure changed. The mining industry showed a huge reduction in debt to equity ratio due to some corporate action in the form of equity finance, which was raised in 2000 and 2005 by Hwange. The industry involves a lot of heavy machinery and is capital intensive, which was previously exclusively financed by debt, but later diluted by equity as the costs of debt began to rise as shown by the losses in operations. this supports the pecking order theory.

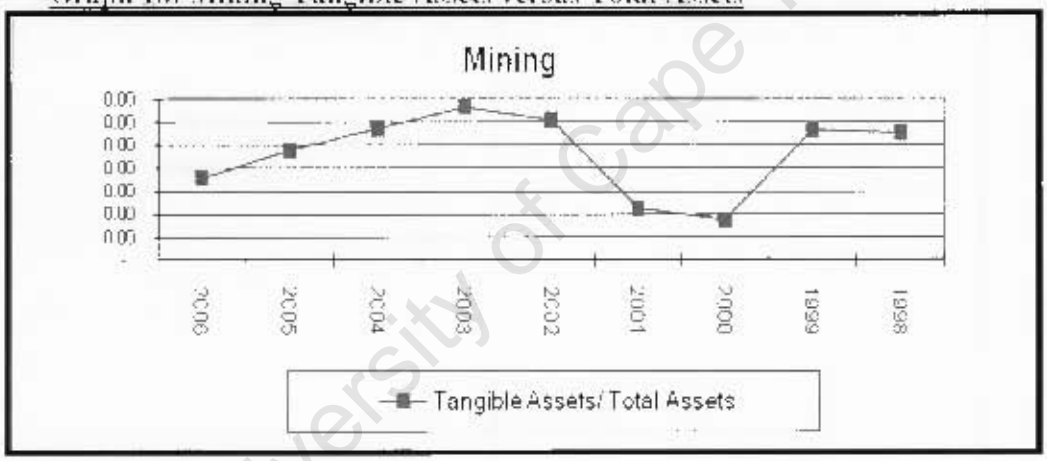
Graph 16: Mining Operating Profit versus Debt to Equity



Graph 17: Mining Sales versus Operating Profit



Graph 18: Mining Tangible Assets versus Total Assets



6.5 HOTELS AND LEISURE SECTOR

6.5.1 Zimbabwe Sun Limited (Zimsun)

Background

The group operates in the leisure industry and is an owner/operator of a number of resorts, hotels, casinos, timeshare operations and lodges throughout Zimbabwe. It also owns a timeshare operation in Mozambique (Archipelago Sun) and has a management

contract with a city hotel (The Grace at Rosebank) in South Africa. It was first established in 1968 as a division of Delta Corporation Limited and after restructuring in 1990 was converted into a public company and listed on the Zimbabwe Stock Exchange and is the largest leisure orientated company in Zimbabwe. The company then demerged from Delta Corporation in January 2002.

Each of the hotels and resorts offer a unique combination of leisure products catering for a diverse range of tastes including safaris, fishing, golf and bird watching. The group's properties cater for both the business and leisure traveller and have been home to most visiting international sporting personalities, teams and conferences.

Zimsun Analysis

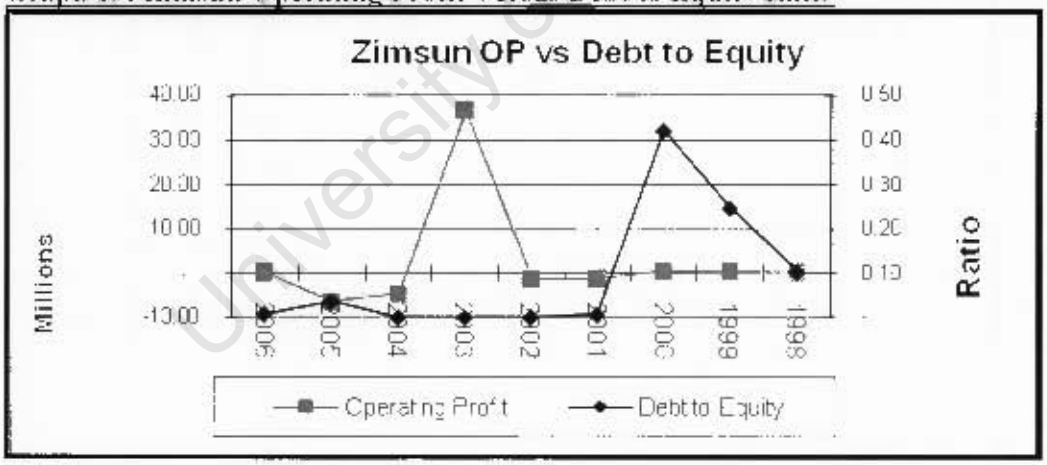
The tourism sector in Zimbabwe has been hard hit by the political instability in the country and this has resulted in a decline in tourist arrivals as well as a shift from international tourists to domestic tourrists and business conferences, which both have previously been the major drivers of revenue for Zimsun. The major capital requirements over the years have been for hotel refurbishments and well as purchase of Information Technology infrastructure.

The dominant financing strategy for the group was the use of retained earnings. This was in conformity with the pecking order theory, where debt is the least prefered form of funding especially when earnings are uncertain. This decline and switch from debt to retained earnings was triggered by the increase in interest rates. This switch supported the trade off theory where capital structure decisions are influenced by the level of

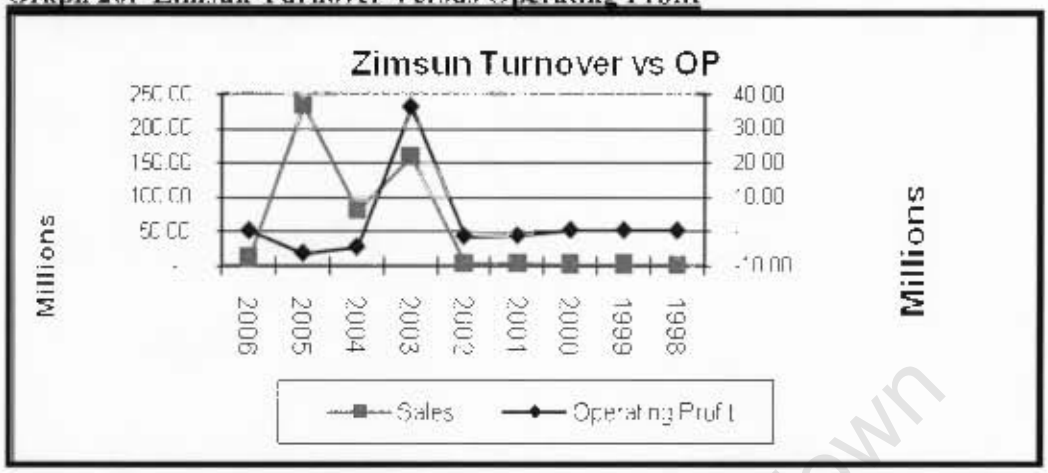
profitability and bankruptcy costs which also determine the level of debt an organisation is willing to carry. The rising interest costs coupled with the decline in tourist arrivals, determined the decision to reduce debt. The spike in profitabilty between 2002 and 2003, as shown in Graph 20, did not translate into higher long term debt levels, as shown in Grapha 19, due to the challenging economic enviroment. The volatility of earnings as evidenced by the sharp decline in the net operating profit after tax between 2003 and 2004 is also indicative of the increase in interest rates.

The debt to equity ratio did not move in tandem with the profitability levels. The amount of debt carried was independent of the profit trend. The level of current liabilities increased between 2002 and 2003 as profitability was enhanced during that period.

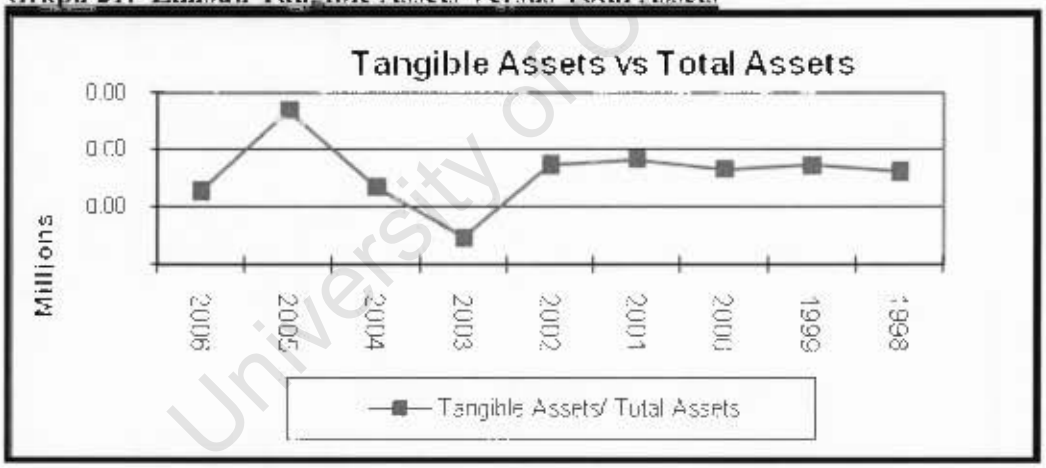
Graph 19: **Zimsun Operating Profit Versus Debt to Equity Ratio**



Graph 20: Zimsun Turnover Versus Operating Profit



Graph 21: Zimsun Tangible Assets Versus Total Assets



6. 5.2 TA Holdings

Background

TA Holdings is a diversified investment company with interests in Tourism, Insurance and Chemicals among other sectors in Zimbabwe, Botswana and Uganda. The tourism arm runs the Cresta Hospitality Group of Hotels which are mainly city hotels targeted at

the business traveller. The insurance companies operate as Zimnat while the company controls a 30% shareholding in Sable Chemicals which is a Chemical manufacturing company based in Kwekwe Zimbabwe.

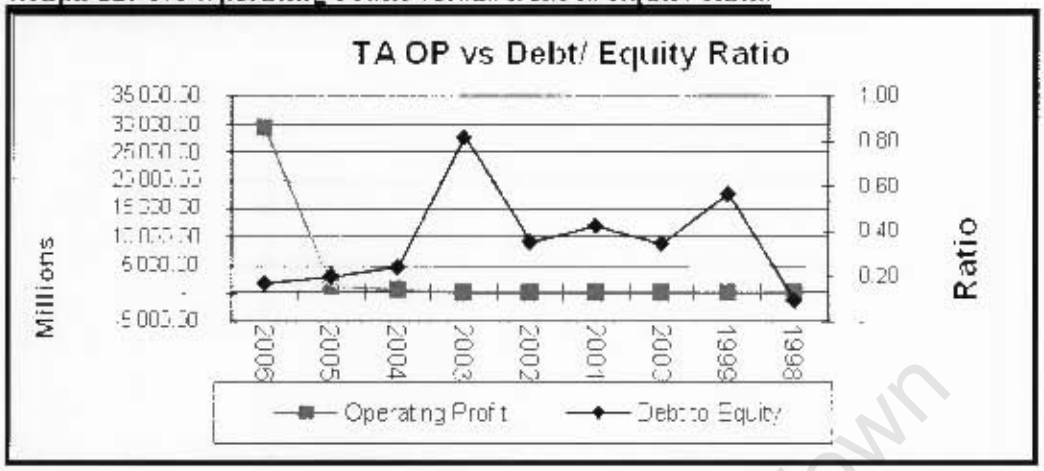
TA Analysis

TA was geared from 1998 to 2003 with the spikes in borrowings occurring during 1999 and 2003, and operating profit was constantly lower, for the period 1999 to 2005, compared to 2006. The increase in profitability was contributed by other TA divisions. The trend contradicted the agency theory, which predicts a positive relationship between leverage and profitability, where the debt equity ratio significantly dropped in 2005 yet profitability went up during the same period. The company reduced debt in 2003 as shown in the debt to equity ratio downward trend in graph 22. No strong link exists between tangibility of assets and the debt that was raised for financing, indicating that other forms of financing were utilised by TA.

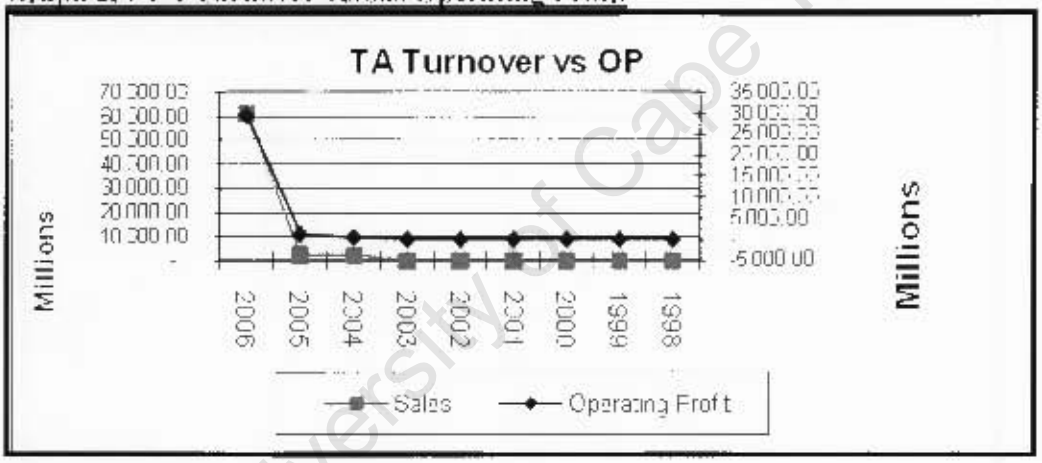
The company suffered a loss in net profit in 2004 as a result of increased finance costs due to the increase in interest rates. The reduction in debt also supports the pecking order theory, where information between investors and management is asymmetrical.

The trend in tangible assets was downward showing that tangible assets did not dominate the asset structure. This is attributed to the service nature of the group, which may be the logic behind reducing debt, which may have been more expensive because of the little collateral available.

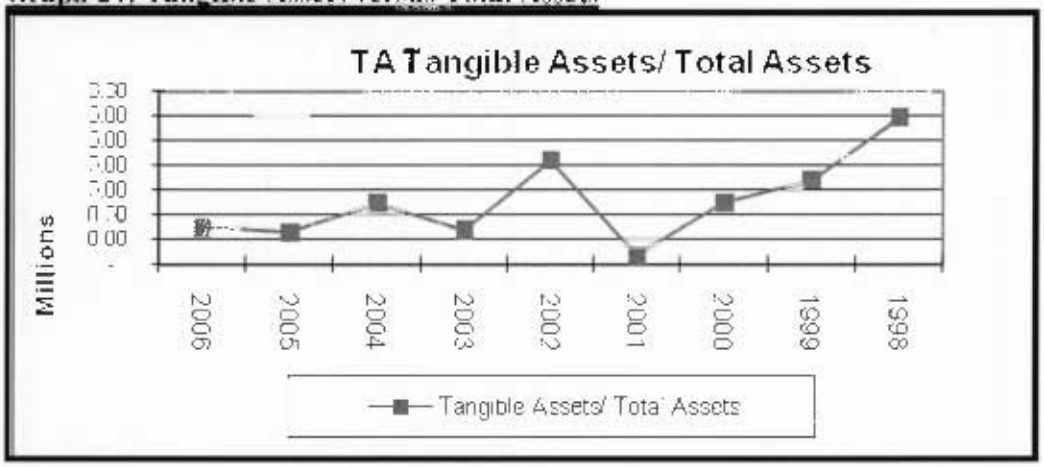
Graph 22: TA Operating Profit versus Debt to Equity Ratio



Graph 23: TA Turnover versus Operating Profit



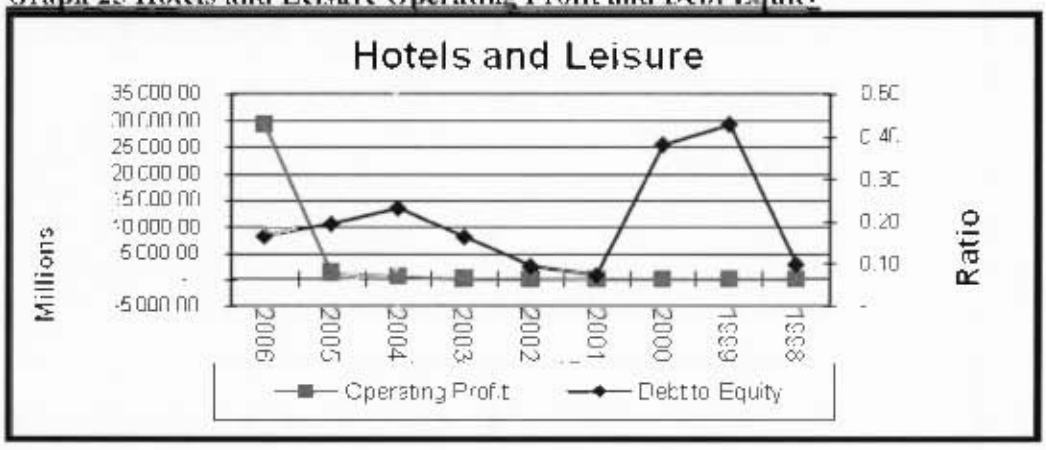
Graph 24: Tangible Assets versus Total Assets



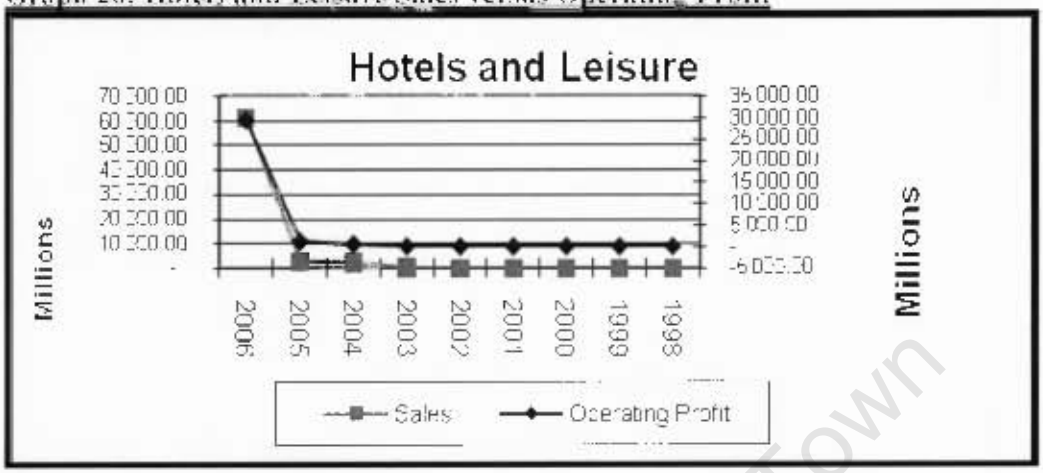
Hotel and Leisure Sector Analysis

The hotel and tourism sector faced similar challenges to the other sectors and was hit hard by a decline in tourist arivals where most of the revenue is generated. In 2001 and 2002 the industry made operating losses but profitabilty was stable for the remaining period reviewed, and rose significantly in 2006. Interest rates went up during the period and therefore increasing the cost of borrowing. Both factors influenced the decision to reduce debt as the industry began to look at other sources of financing. The debt to equity ratio peaked in 1999 as shown in Graph 25, however the outlook for the sector is a bit distorted by TA Holdings which operates other diversified companies in different sectors. Tangible assets were not directly linked to the debt as shown by Graphs 25 and Graph 26, which is in conratst to the trade off theory. Tangible assets to total asset ratio followed a downward trend due to the service nature of the hotel industry. Hotels financed their operations by debt funding in 1999 and 2000 where the gearing was higher compared to the other periods under review. However, there was a sudden shift to retained earnings, which supports the trade off theory where capital structure decisions are influenced by the level of profitability and bankruptcy costs.

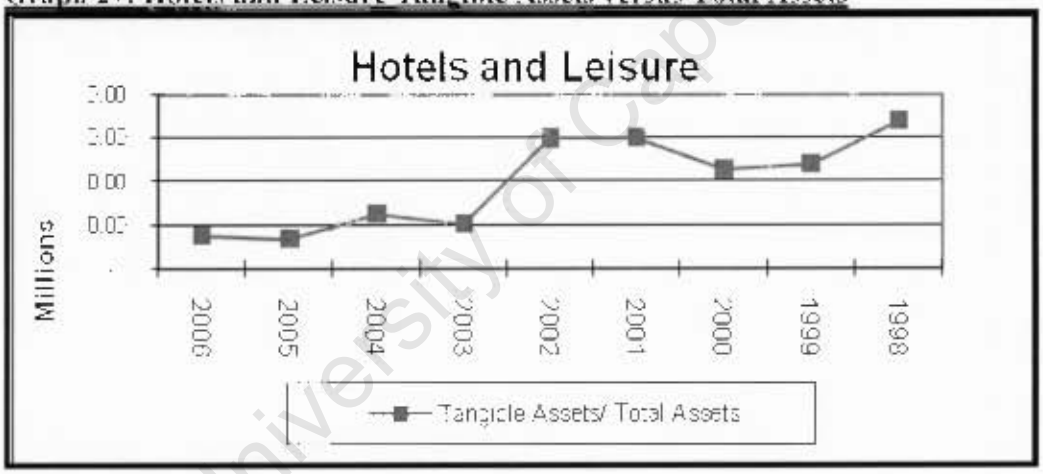
Graph 25 Hotels and Leisure Operating Profit and Debt Equity



Graph 26: Hotels and Leisure Sales versus Operating Profit



Graph 27: Hotels and Leisure Tangible Assets versus Total Assets



6.6 TELECOMMUNICATIONS SECTOR

6.6.1 Econet Wireless Holdings Limited

Background

Econet commenced its operations in July 1998 providing telecommunications products and services to its customers mainly consisting of basic pre-paid and contract cellular packages; internet access and transaction processing services. Econet Wireless Holdings

Ltd has a 100% shareholding in Franchise Development Management All Communications (Pvt) Ltd, Data Control and Systems (1996) (Pvt) Ltd, Econet Wireless (Pvt) Ltd and EW Capital Holdings (Pvt) Ltd which in turn has a 24.6% shareholding in Kingdom Financial Holdings Ltd thereby making it an associate company. Econet Wireless Holdings Ltd also holds an 84.3% holding in Transaction Processing Systems (Pvt) Ltd.

Econet Wireless (Pvt) Ltd is the group's cellular network operator and main subsidiary in terms of contribution to turnover and profitability. The company is the largest mobile cellular network provider in Zimbabwe with a 55% market share. Data Control and Systems (1996) (Pvt) Ltd which trades as Ecoweb, is the largest internet service provider serving both corporate and individual dial-up customers. Franchise Development Management All Communications (Pvt) Ltd which trades as YourFone is the community phone service operator and is the largest such operation in the country.

Transaction Processing Systems (Pvt) Ltd is a leading provider of financial transaction switching services, point of sale and value-added services that exploit the convergence of banking, information technology and telecommunications. Kingdom Financial Holdings, which is the group's associate company, is a diversified Zimbabwean listed financial services group. This investment allows the group to exploit synergies between the telecommunications industry and the banking services sector which include mobile banking, electronic airtime re-charging and e-banking.

Econet Analysis

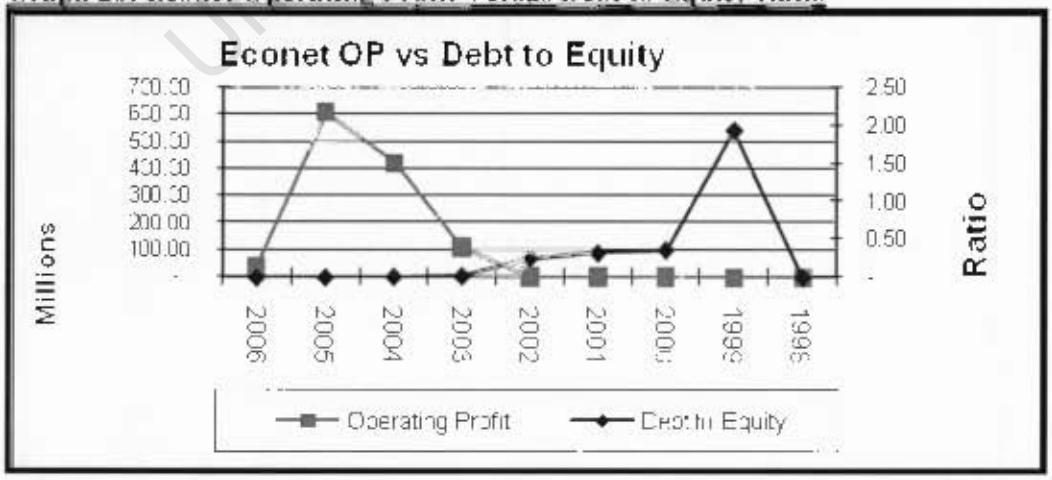
Econet is a market leader with a market share of 55% and most of its capital expenditure is foreign currency denominated. Upon listing in 1998 the firm's capital structure was skewed towards equity as it was still an new entrant in the market competing with the two unlisted main competitors Telecel and Netone who had been in operation for two years. To facilitate rapid network expansion in 1999 and with the importation of equipment from Erickson as indicated by the tangible asset to total assets ratio, the company shifted its structure towards debt. Most of the assets of the firm i.e telecoms equipment are tangible and despite the inflationary enviroment, the trade off capital structure theory proved true with the increased debt related to more capital equipment and company growth. This enabled it to leverage off its increased size and growing earnings.

Despite the increased market share over the years and growth in the firm, the gearing was reduced to zero in 2006 due to the unvailability of debt and the foreign exchange shortage in the economy. Most of the expansion has been funded through retained earnings. The enhanced profitability over the years fuelled by increased subscriber numbers did not trigger a need for increased debt for further expansion in conformity with pecking order theory which implies that debt is the least prefered financing option, especially when EBIT is increasing. The trend where the increased profitabilty did not translate into increased debt however, defies the trade off theory which predits increased debt with increased profitability. The opposite was true and this proves that the trade off theory in relation to profitability in a hyperinflationery enviroment does not hold true. Econet

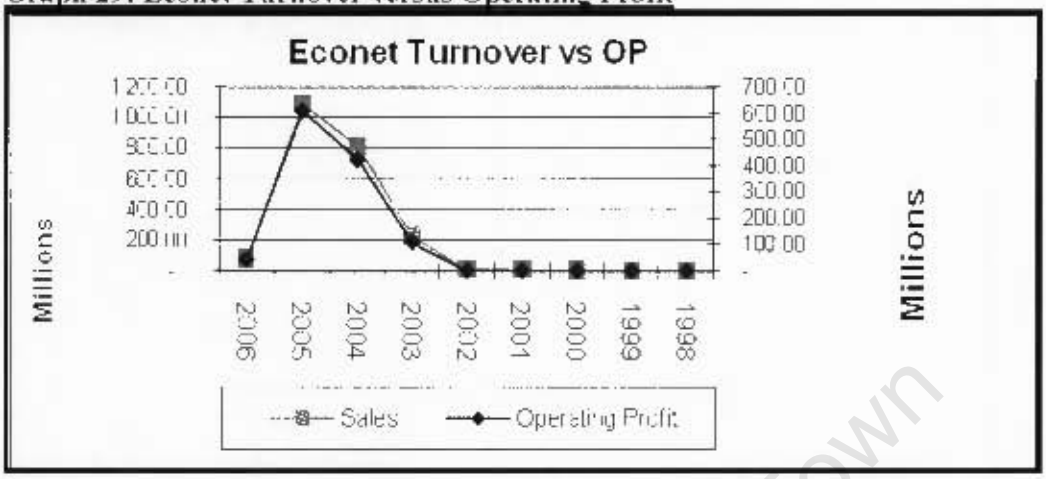
being a capital intensive organisation, adopted a strategy to be debt free (Annual report 2006) as a result of the anticipated volatility of earnings due to inflationary pressures as depicted in Graph 28. Pricing structures for their tarriffs were affected by exchange rate movements and according to the firm's annual report the tarriffs were still low in USD terms in comparison to the region. The firm as a result, showed signs of conformity with the pecking order theory where debt is the least prefered option when EBIT could be negative.

In conclusion, in a hyperinflationery economy especially for telecommunications companies, as a last resort firms opt for debt and this was also confirmed in the company's annual report for 2006. Econet adopted a zero debt policy and there is no defined pattern of capital structure as a result of the economic volatility. The nature of the business and anticipated margins were also a factor in determining the capital structure. A comparison with companies in the same sector was not possibile as a result of the unavailability of information as the competitors are not listed.

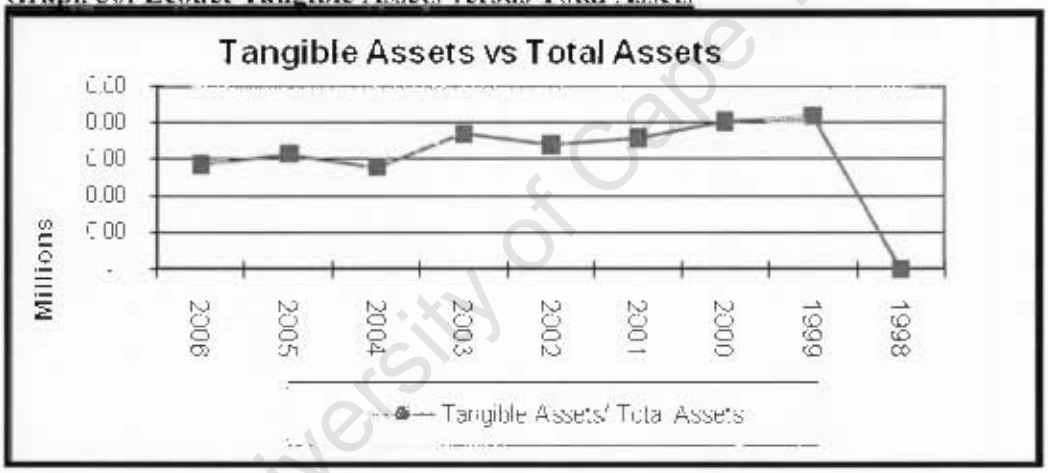
Graph 28: Econet Operating Profit Versus Debt to Equity Ratio



Graph 29: Econet Turnover versus Operating Profit



Graph 30: Econet Tangible Assets versus Total Assets



6.7 FOOD RETAIL SECTOR

6.7.1 OK Zimbabwe Limited

Background

OK is a major supermarket chain that was founded in 1940 and listed on the Zimbabwe Stock Exchange in 2001 after a demerger from Delta. Its business covers three major categories mainly groceries, basic clothing and house ware products. The company trades

under three brand names of OK stores, Bon Marche` stores and OK Express. The operations are through a branch network of 39 OK stores, 5 Bon Marche stores and 7 OK Express stores. The main competitors are Spar, TM supermarkets part of the listed Meikles Africa Group.

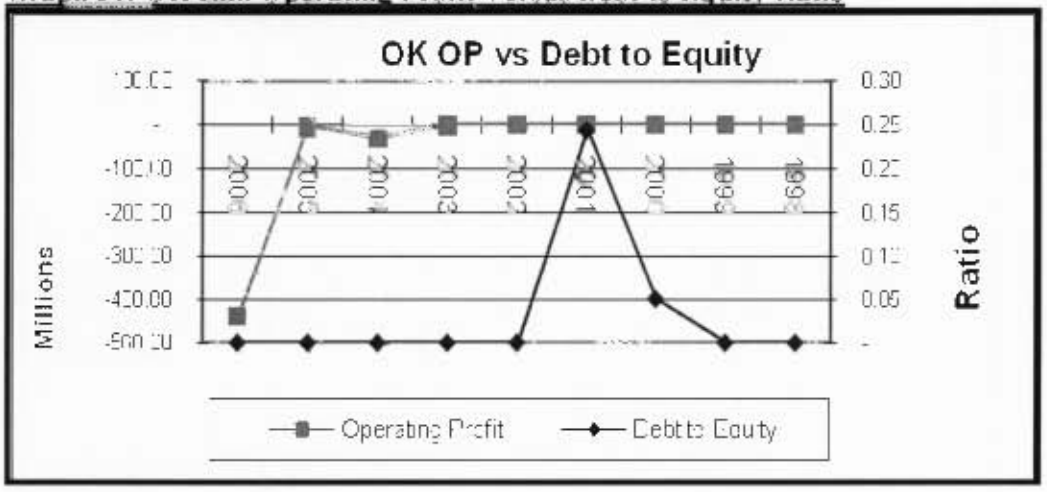
OK Analysis

The retail industry in Zimbabwe has been affected by the diminishing disposable incomes as a result of inflationary pressures. This has mainly impacted the market for luxury consumer goods with the shift towards basic comodities, which is the target market for OK Zimbabwe. OK operates a cash business that requires very low levels of gearing for short term working capital requirements. The nature of its business is such that capital raising initiatives are meant to fund shop roll outs and branch expansions and renovations. The total debt to equity ratio showed signs of volatility but the interest paid has been consistent over the years reflecting very low levels of finance costs .The company did not have any debt in 1998 and there was a spike in 1999 to 2001, where the debt to equity ratio rose significantly. This was meant to fund an expansion programme before declining to around zero in 2002 . The reduction was prompted by the increasing finance costs in relation to the potential decline in earnings which materialised as evidenced by an operating losses from 2003 to 2006, offset by finance income to give net profit. This is evidence that the company in that year did not make its profits from core activities. The business is very susceptable to declining disposable incomes and potential price controls that have characterised the Zimbabwean enviroment, which have negative effect on profitabiltiy. The effect has been very low debt levels to avoid the potential financial distress. This has resulted in retained earnings being the prefered form of

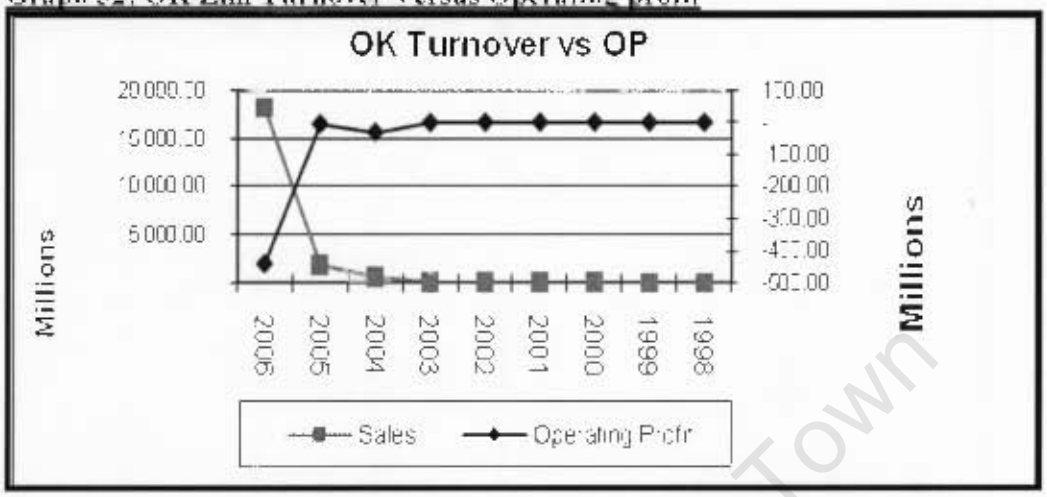
funding capital projects. The tangibilty of the firms total assets did not improve the debt level as OK is a service firm whose main assets are leased shops and the equipment cannot be unwound easily. This explains the very low debt levels in favour of retained earnings and equity. The access to debt for OK will have been at a significant premium as compared to a manufacturing firm who assets can be collaterised to facilitate higher debt levels. This supports the skew towards retained earningsand the very low gearing levels. The tax benefit from carrying debt did not have an influence on the leverage decision as OK adopted a very minimalistic approach to debt and only borrowed when it was necessary.

The volatility of current and potential earnings suports the notion that, in a hyperinflationery enviroment size influences increased debt. OK is also a cash business whose working capital requirements are catered for by the recurrent cashflows. A comparison with other firms was not possible as they are not listed and do not provide financial information to the public.

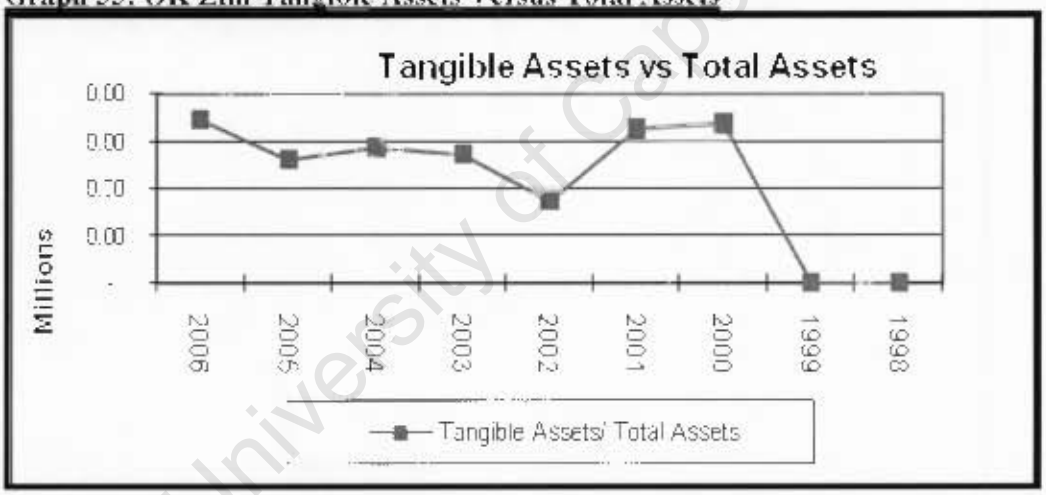
Graph 31: OK Zim Operating Profit Versus Debt to Equity Ratio



Graph 32: OK Zim Turnover Versus Operating profit



Graph 33: OK Zim Tangible Assets Versus Total Assets



6.8 Summary-Overall Analysis

The telecomunications and foodstuff retail sector, only had one company that was surveyed, therefore the company analysis above sufficed as the sectoral analysis. A comparison with companies in the same sector was not possibile as a result of the unavailability of information as the competitors are not listed. In conclusion, it was noted

for both industries that capital structures changed as the economy deteriorated in support of the capital structure theory assumptions.

Capital structures have changed from 1998 to 2006 as there were both internal and external influences, mainly higher interest rates. Companies have all moved from the expensive debt financing to non-costly ways of financing their operations. Listed companies in Zimbabwe financed their growth by debt during the 1998 to 2000 and changed to retained earnings as the cost of servicing debt increased from 2000 to 2006. Though equity is the preferred source of funding compared to debt, because there are no servicing charges such as interest, there is a lag in time during the equity capital raising and under hyper inflation the capital raised will have been greatly reduced in real terms due to high inflation. Given the background on equity finance, most companies were involved in very little corporate action that involved equity financing but used internal ways of financing growth and their balance sheets mainly retained earnings.

CHAPTER 7: CONCLUSION

The quantitative and qualitative techniques that were used in the study to assess the determinants of capital structure, which are size, tangibility, profitability and non-tax debt shield of the selected companies and the sectors, successfully demonstrated that capital structure theories are by and large applicable in an economy operating under hyper inflation such as Zimbabwe and have a bearing on how companies finance their balance sheets.

7.1 Comparison with Other Research

A lot of work has been undertaken on the topic of capital structures dating back to Miller and Modigliani (1958) but there has been very little research that has been directed on corporates that are operating in extreme hyper inflation such as that being incurred in Zimbabwe. Whittington et al. found that hyper inflation distorts financial ratios. There is evidence that hyper inflation distorted financial ratios in Zimbabwe as the same trends have been noticed in the quantitative graphs that were constructed and reviewed, regardless of the different nature and industry of business.

7.2 Major insights emerging from the study

There are major insights that have been revealed by the study, which are:

- The literature review that has been reviewed indicates that there is very little research that has been directed to hyper inflation economies and situations. Very little literature is available on capital structure in a hyperinflationary environment

hence there is lack of comparability. This study is therefore breaks new ground by revealing how capital structure decisions are arrived at in a hyper inflationary environment, and definitely for Zimbabwe.

- Capital structures change with hyper inflation and there is strong evidence that financial ratios are distorted by hyper inflation.
- Companies use the same capital structures as they all want (optimal) cheap and tax efficient ways of funding the balance sheet as the factors that cause hyper inflation have affected companies on a wide basis.
- Quality information is not readily and cheaply available in Zimbabwe, which makes it very difficult to accurately assess the choices and impact of capital structures. Zimbabwe does not enjoy access to capital markets due to the perceived high risk, and therefore is not a target for international investment. This has closed out Zimbabwean companies from participating in other types of capital raising instruments.
- Even when companies are faced with harsh operating conditions, they adapt to the changing environment by changing the source of finance and the structure of the company, as a survival tactic. This is reaffirmed by the ability to make both operating profit and net profits after adjusting for inflation.
- Capital structure theories give an indication of the action a company takes (internal action) in response to external changes allowing managers to plan ahead.
- Some of the assumptions of the capital structure theories were not assessed namely; default risk, managerial ownership, stock prices and hence value

perceived by market, free cash flow and bond contracts impacting negatively on the study.

In conclusion, the objective of the research was to test the validity and applicability of the conventional capital structure theories in the Zimbabwean environment between 1998 and 2006, where evidence was exhibited that the capital structure theories are valid though applicable in different intensities. It is important to restate the research questions and summarise how the research questions have been addressed or the points of departure, if any.

7.3 Answering the Research Questions

The research questions are:

1. *How have corporate structures and financing patterns changed in Zimbabwe between 1998 and 2006?*

The graphs shown above in the analysis section indicate that companies have followed universal capital structure decisions. This has been influenced by the same factors having a generic effect on all the companies in Zimbabwe, which is in an economic crisis. It has been evidenced that all the eight companies that were assessed changed from debt financing to other forms of financing their operations, being mainly retained earnings which is a cheap form of financing relative to debt finance. There has been little equity finance raising activity due to the costs involved and the time lags, where the capital raised would be eroded by hyper inflation. This has led to the conclusion that corporate structures and financing patterns have changed in Zimbabwe. The capital structures have shifted from external financing to an internal source financing.

2. *How have listed companies in Zimbabwe financed their growth and to what extent have capital structure theories been applicable?*

Companies listed on the ZSE have traditionally financed their operations by debt, and by raising equity through rights issues and Initial Public Offerings. The sample that has been assessed in this research shows that the economic situation in Zimbabwe has significantly deteriorated with high interest rates and hyper inflation negatively affecting corporates. This has led companies to shift from the traditional capital raising methods to internal means of financing their operations. The deliberate strategy by companies to reduce debt was necessitated by the high interest rates which are a function of high government borrowing, which crowds out the private sector ultimately inhibiting private sector investment. This has caused companies in Zimbabwe to shrink and ultimately source funding from internal means. This phenomenon has been widely evident in the analysis this research has undertaken and the findings thereof, where companies have shifted from debt and equity funding to retained earnings, which is a cheap alternative, foregoing the tax benefits of debt.

Capital structures have widely been applicable to corporates listed on the ZSE, though at different intensities. The impact of the underlying assumptions of the capital theories were not all fully assessed due to the nature of the Zimbabwe capital markets, where, not all the financing instruments and structures are applicable or merely are in existence. The trade off theory has clearly been applicable as shown in the analysis of companies and industries. However, three key predictions of the trade off theory could not be assessed,

namely: The effective tax rate is positively related with the debt level, default risk is negatively correlated to firm's debt ratio, and the size of a company is positively correlated to the level of debt. The signalling theory was applicable although not clear because information asymmetry between managers and investors is difficult to assess and quantify, especially where the stock prices and managerial ownership issues were not assessed.

The pecking order theory was clearly evidenced in the analysis where companies prefer internal to external finance and issuance of safer securities to more risky ones. However, one of the key assumptions was not assessed, which is, debt issues do not cause any stock price movements because an event study was not undertaken.

3. *Are there any differences in corporate structures according to industry classification, size of firm under hyperinflation?*

The study did not identify structural differences in corporate structures according to industry classification under hyperinflation. The findings indicate that the structures are generic across industries, which is attributable to the same economic factors affecting all companies such as high interest rates, diminishing purchasing power, hyper inflation and fiscal indiscipline. A strong correlation between the choices of capital structure to the economic environment that has prevailed in Zimbabwe was evident, as companies and industries followed the same trends in the choice of capital structure even though the randomly selected companies represented large listed organisations. This supported empirical evidence Whittington et al. (1980), where they concluded that hyper inflation

distorts financial ratios, which in turn leads to the same trends applying to companies operating in a hyper inflation environment.

BIBLIOGRAPHY

Akerlof, G.A. (1970), The Market for "Lemons: Quality Uncertainty and the Market Mechanism." *Quarterly Journal of Economics*, 84, pp. 488-500

Antoniou, A., Guney, Y., Paudyal, K. (2002), Determinants of Corporate Capital Structure: Evidence from European Countries. *EFMA 2002 London Meetings, http://ssrn.com/abstract=302833*

Arnold, J. and P. Moizer. (1984), A survey of the methods used by UK investment analysts to appraise investments in ordinary shares. *Accounting and Business Research* (Summer): pp.195-207.

Barclay, M.J., Smith C.W., Ross L.W. (1995), The Determinants of Corporate Leverage and Dividend Policies. *Journal of Applied Corporate Finance*, 7, *pp. 4-19*

Bauer, P., Bubák, V. (2003), Informative Value of Firm Capital Structure. *Prague Economic Papers*, 3, pp. 233-248

Bond,P. (1999) ,Political Reawakening in Zimbabwe

Booth, L., Aivazian, V., Demirguc-Kunt, A., Maksimovic, V. (2001), Capital Structure in Developing Countries. *Journal of Finance*, 56, pp. 87-130

Brealey, R. A., Myers, S. C. (2000), Principles of Corporate Finance. New York: McGraw-Hill,

Brigham,E.F, Davis,P.R. (2004), Intermediate Financial Management, 8th Edition International Student Edition

Business report. (2006), Zimbabwe inflation now 1204.6%. *Accessed on 10.10.2006 at http://www.zimbabwesituation.com/August*

Cagan,P, (1956), The Monetary Dynamics of Hyperinflation, in Friedman, Milton (1956), ed, Studies in the Quantity Theory of Money, Chicago: University of Chicago Press.

Campbell,J., Hamao,Y. (1995), Changing patterns of corporate financing and the main bank system in Japan, Oxford University Press

Correia,C., Flynn,D., Uliana, E., Wormald,M. (2003) Financial Management 5th Edition, Juta & Co, Cape Town.

Chamisa, E.E. (2006), The use and perceived usefulness of IAS 29 restated financial statements by Zimbabwean investment analysts. *Paper presented at the European Accounting Association Conference in Dublin, Ireland from 22nd to 25th March 2006*

Chew, D. (1993), The New Corporate Finance: Where Theory Meets Practice. MacGraw Hill, New York.

Cornett, M., Travlos, N. (1989), Information Effects Associated with Debt-for-Equity and Equityfor-Debt Exchange Offers. *Journal of Finance, 44, pp. 451-468*

Deane, M., and Pringle, R. (1994), The Central Banks. Viking Penguin, New York.

Debelle G. and S. Fischer (1994), How Independent Should a Central Bank Be ? *in Fuhrer J. C. (ed.) Goals, Guidelines and Constraints Facing Monetary Policymakers, Federal Reserve Bank of Boston, Boston, MA.*

Demirguc-Kunt, A., Maksimovic,V., (1994), Stock Market Development and Firm Financing Choices, *World Bank Economic Review, 10,341-369*

Fan, J.P.H, Titan,S.,Twite,G (2003), An International Comparison of Capital Structure and Debt Maturity Choices, *AFA 2005 Philadelphia Meetings, http://ssrn.com/abstract=423483*

Frank, M.Z., Goyal, V.K. (2003), Capital Structure Decisions. *AFA 2004 San Diego Meetings, http://ssrn.com/abstract=396020*

Frank, M.Z., Goyal, V.K. (2003), Testing the Pecking Order Theory of Capital Structure. *Journal of Financial Economics, 67, pp. 217-248*

Guedes,J., Opler,T. (1996), The Determinants of the maturity of corporate debt issues. *Journal of Finance 51, 1809-1833*

Hammes, P. (2003), The Determinants of Trade Credit in Transition Countries., *Journal of Economics of Planning, Springer Netherlands, Volume 37, Numbers 3-4, pp 173-193*

Harris, M., Raviv A. (1991), The Theory of Optimal Capital Structure. *Journal of Finance, 48, pp. 297-355*

Huang, S.G., Song, F.M. (2002), The Determinants of Capital Structure: Evidence from China.*Hong Kong Institute of Economics and Business Strategy, Working Paper No. 1042 International Monetary Fund.* (2001). *International financial statistics yearbook. Publication Services, Washington, DC.*

Japan, Gatward and Sharpe (1996), Country and size effects in financial ratios: A European perspective, *Global Finance Journal, Volume 16, Issue 1 pp 26-47*

Jensen, M.C. (1986), Agency Costs of Free Cash-flow, Corporate Finance, and Takeovers. *American Economic Review, 76, pp. 323-329*

Jensen, M. C., Meckling, W. H. (1976), Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics, 3, pp. 305-360*

Kim, W.S., Sorensen, E.H. (1986), Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy. *Journal of Financial and Quantitative Analysis, 21, pp. 131-144.*

Klein, L.S., O´Brien, T.J., Peters, S.R. (2002), Debt vs. Equity and Asymmetric Information: A Review. *Financial Review, 37, pp. 317-350*

Lafalaise, J.R. (2002), Hyperinflation theory and practice Brazil data: 1965-1995. A study with directed graphs. *Doctoral Thesis, H.Wayne Huizenga School of Business and Entrepreneurship* Leland, H.E., Pyle, D.H. (1977), Information Asymmetries, Financial Structure, and Financial Intermediation. *Journal of Finance, 32, pp. 371-387*

Marek, P. (2000), Distribution of Net Income and Dividend Policy (in Czech). Ekopress, Prague.

Marsh, P. (1982), The Choice between Equity and Debt: An Empirical Study, *Journal of Finance, 37, 121-144*

Masulis, R.W. (1980), The Effects of Capital Structure Change on Security Prices: A Study of Exchange Offers. *Journal of Financial Economics, 8, pp. 139-178*

Medeiros, O.R and C. E Daher (2001), Testing the Pecking Order Theory of Capital Structure in Brazilian Firms, S*SRN Working Paper Series, December 2001*

Meek,G. (1977), Directors' Pay, Growth and Profitability, *The Journal of Industrial Economics, September 1975, pp 1-14*

Miller, M.H. (1977), Debt and Taxes. *Journal of Finance, 32, pp. 261-275*

Modigliani, F., Miller, M.H. (1958), The Cost of Capital, Corporation Finance and the Theory of Investment. *American Economic Review, 48, pp. 261-297*

Modigliani, F., Miller, M.H. (1963), Corporate Income Taxes and the Cost of Capital: A Correction. *American Economic Review, 53, pp. 433-443*

Mohr, P. 2000, Economic Indicators, 3 ed., Unisa Press, Pretoria Myers, S.C. (1977), Determinants of Corporate Borrowing. *Journal of Financial Economics, 5, pp. 147-175*

Myers, S.C. (1984), The Capital Structure Puzzle. *Journal of Finance, 39, pp. 575-592.*

Myers, S.C. (1993), Still Searching for Optimal Capital Structure. *,Journal of Applied Corporate Finance,6:4-14*

Myers, S.C. (2001), Capital Structure. *Journal of Economic Perspectives, 15, pp. 81-102*

Myers, S.C., Majluf, N.S. (1984), Corporate Financing and Investment Decisions when Firms Have Information the Investors Do Not Have. *Journal of Financial Economics, 13, pp. 187-221.*

Myers, S.C., Shyam-Sunder, L. (1994), Testing Static Trade-off against Pecking Order Models of Capital Structure. *National Bureau of Economic Research, Working Paper no. 4722*

Palata, M. (2003), Capital Structure-Theory and Czech Practice, Diploma Thesis, Charles University, Faculty of Social Sciences, Institute of Economic Studies

Rajan, R.G., Zingales, L. (1995), What Do We Know about Capital Structure? Some Evidence from International Data, *Journal of Finance, 50, pp. 1421-1460*

Ramos,A.M, (1998), Capital Structures and Portfolio Composition During Banking Crisis-Lessons from Argentina 1995, *IMF papers*

Ross, S. (1977), The Determination of Financial Structure: the Incentive-Signalling Approach. *Bell Journal of Economics, 8, pp. 23-40*

Ross, S.A., Westerfield, R.W., Jaffe, J. (1996), Corporate Finance. Boston, MA: Times Mirror Higher Education, fourth edition

Singh, A. (1975), The Size and Growth of Firms. *The Review of Economic Studies, January 1975, pp. 15-26*

Singh, A. (1995), Corporate Financial Patterns in Industrialising Economies, A Comparative International Study published by the World Bank

Smith,A. (1776), An Inquiry into the Nature and Causes of the Wealth of Nations, P F Collier & Son Company, New York

Starke,A.D, (1998), Determinants and Trends of Capital Structures of Listed South African Industrial Companies, Dissertation, Business Economics Financial Management, University of Stellenbosch Graduate School of Business.

Stohs and Mauer (1996), The choice of maturity and additional covenants in debt contracts: A panel data approach, *Research in International Business and Finance, Volume 22, pp 284-300*

The Standard. (2003), State in bid to revive TNF. *Accessed on 01.09.2003, at http://www.thestandard.co.za/sections/front_reader.aspst_id+2251*

Titman, S and Wessels, R, (1988), The Determinants of Capital Structure Choice, *Journal of Finance, American Finance Association, vol. 43(1), pages 1-19*

Vermaelen, T. (1981), Common Stock Repurchases and Market Signalling: An Empirical Study, *Journal of Financial Economics, 9, pp. 139-183*

Wald, J.K. (1999), How Firm Characteristics Affect Capital Structure: An International Comparison, *Journal of Financial Research, 22, pp. 161-187*

Warner, J.B. (1977), Bankruptcy Costs: Some Evidence. *Journal of Finance, 32, pp. 337-347*

Whittington, G, Saporta, V and Singh A. (1997), The Effects of Hyper-Inflation on Accounting Ratios, *International Monetary Finance Corporation Technical Paper.*

Whittington, G. (1968), Growth, Profitability and Valuation, Cambridge University Press

Whittington, G (1975), The Size and Growth of Firm, *Review of Economic Studies, January*

Whittington, G. (1983), Inflation accounting: an introduction to the debate. Cambridge University Press

World Bank Country Study. (1989) Peru, Policies to stop hyperinflation and initiate economic recovery.

Appendix 1: Zimbabwe Consumer Price Index-All Items (Year on Year Inflation)

	1998	1999	2000	2001	2002	2003	2004	2005	2006
	%	%	%	%	%	%	%	%	%
January	24.20	44.13	55.95	80.56	116.74	208.18	622.76	133.57	613.17
February	23.99	49.97	48.91	80.48	116.35	220.94	602.49	127.22	782.02
March	27.97	52.76	50.79	80.71	113.42	227.94	583.71	123.70	913.56
April	26.42	52.70	53.71	80.56	113.97	269.19	505.06	129.06	1042.93
May	29.31	52.96	58.68	80.75	122.60	300.10	448.74	144.37	1193.50
June	29.84	55.20	59.27	79.64	114.66	364.42	394.56	164.31	1184.66
July	29.33	63.55	53.41	78.95	123.54	399.55	362.89	254.80	993.64
August	29.32	68.82	53.52	78.18	135.05	426.58	314.55	265.14	1204.56
September	31.69	69.69	61.97	76.94	139.93	455.58	251.53	359.85	
October	34.33	70.40	60.82	75.49	144.14	525.84	209.02	410.98	
November	45.12	61.21	55.96	74.75	175.40	619.48	149.26	502.35	
December	46.66	56.90	55.22	73.73	198.89	598.73	132.75	585.84	
Annual Average*	31.52	58.19	55.68	78.40	134.56	384.71	381.44	266.77	1321.34
*Calculated by dividing the total of monthly rates by 12									

SOURCES: Central Statistics Quarterly Bulletins 1998-2006

Appendix: 2 Schedule of Interest rates

Interest Rates - BA Rate		BA Yield	90-Day NCD Rate	TB Effective Yield (Rate)
31-Jan-95	32.72	35.59	40.00	34.01
28-Feb-95	33.06	35.09	40.00	34.09
31-Mar-95	33.38	36.37	41.00	34.13
30-Apr-95	33.75	34.61	40.00	34.16
31-May-95	33.04	35.97	40.00	33.28
30-Jun-95	33.92	37.52	40.00	33.87
31-Jul-95	34.71	35.51	40.00	34.01
31-Aug-95	37.25	41.02	45.00	37.60
30-Sep-95	37.21	41.02	39.50	38.05
31-Oct-95	37.88	41.78	45.50	38.13
30-Nov-95	38.21	41.78	45.50	38.65
31-Dec-95	38.25	42.20	42.00	38.65
31-Jan-96	39.71	44.07	41.25	39.25
29-Feb-96	39.75	43.84	41.50	40.59
31-Mar-96	39.75	44.07	41.50	42.54
30-Apr-96	39.85	44.21	42.00	42.75
31-May-96	40.00	44.38	42.50	44.17
28-Jun-96	41.63	45.39	45.00	44.65
31-Jul-96	44.35	49.98	49.75	45.00
31-Aug-96	46.25	52.20	49.75	52.45
30-Sep-96	52.50	58.31	58.50	62.43
31-Oct-96	55.50	59.73	67.25	61.20
29-Nov-96	60.65	79.40	70.00	61.59
31-Dec-96	65.00	77.41	72.50	61.61
31-Jan-97	65.00	77.41	72.50	61.02
28-Feb-97	56.50	59.73	58.50	61.53
31-Mar-97	63.75	75.04	70.00	63.71
30-Apr-97	67.25	80.62	69.00	65.58
31-May-97	61.50	72.42	56.50	65.08
30-Jun-97	62.00	73.19	58.50	61.98
31-Jul-97	60.50	75.10	70.00	65.74
31-Aug-97	64.50	81.26	53.00	62.84
30-Sep-97	52.50	60.31	55.50	35.44
31-Oct-97	50.75	61.00	60.25	30.64
28-Nov-97	55.75	65.52	81.50	52.44
31-Dec-97	50.00	60.27	58.50	57.64
31-Jan-98	35.00	38.21	37.00	33.95
28-Feb-98	21.75	22.96	23.38	19.60
31-Mar-98	19.25	20.21	20.50	17.17
30-Apr-98	13.00	13.43	13.38	11.23
31-May-98	14.25	14.77	14.88	11.95
30-Jun-98	13.50	14.07	13.38	12.56
31-Jul-98	21.00	22.78	21.00	15.59
31-Aug-98	21.25	22.43	17.38	18.74
30-Sep-98	23.25	24.66	20.50	18.17
31-Oct-98	23.25	24.56	21.38	18.15
30-Nov-98	23.25	24.56	25.38	21.83
31-Dec-98	23.25	24.56	25.38	25.54
31-Jan-99	25.50	27.21	29.50	30.15
28-Feb-99	25.50	27.21	29.50	33.03
31-Mar-99	23.33	24.56	33.50	30.84
30-Apr-99	26.38	27.87	33.50	30.27
31-May-99	26.50	28.31	33.50	30.02
30-Jun-99	27.50	29.50	33.50	30.70
31-Jul-99	26.95	28.90	28.00	30.33
31-Aug-99	28.95	27.76	29.75	30.15
30-Sep-99	21.00	25.04	31.50	27.15
31-Oct-99	19.50	22.98	30.50	25.70
30-Nov-99	26.32	26.81	33.50	26.49
31-Dec-99	31.50	33.13	35.50	31.93
31-Jan-00	33.05	32.40	59.50	31.45
29-Feb-00	35.50	38.61	45.00	38.14
31-Mar-00	33.00	35.51	51.00	43.38
30-Apr-00	57.25	66.65	52.50	50.72
31-May-00	61.75	72.84	52.50	56.54
30-Jun-00	124.50	146.37	77.50	52.53
31-Jul-00	105.38	143.51	92.50	57.12
31-Aug-00	71.10	86.20	95.00	57.17
30-Sep-00	114.38	156.57	127.50	57.12
31-Oct-00	114.14	158.85	135.00	57.03
30-Nov-00	128.38	176.43	135.00	79.71
31-Dec-00	170.38	252.59	390.00	79.47
31-Jan-01	194.50	384.35	325.00	82.59

SOURCES: Reserve Bank Quarterly Reports 1998 to 2006

Appendix 3-Financial Statements of Selected Listed Companies

ASTRA - INFLATION ADJUSTED DATA

	2006 $m	2005 $m	2004 $m	2003 $m	2002 $m	2001 $m	2000 $m	1999 $m	1998 $m
	9 954	8 527	10 461	14 022	12 498	9 063	4 800	1 077	649
Turnover	254.00	032.00	116.00	042.00	061.00	361.00	422.00	554.00	148.00
	553	1 205		1 837	2 587	106	323	156	75
Operating profit/(loss)	402.00	843.00	-190 970.00	831.00	207.00	076.00	677.00	123.00	318.00
	-919	-1 222		-1 465		204			
Monetary adjustments	846.00	826.00	-600 300.00	162.00	-350 493.00	599.00	-40 503.00		
	213								-9
Finance income/(cost)	349.00	353 034.00	-87 460.00	77 734.00	12 849.00	-332.00	88 836.00	-41 669.00	169.00
	-173			2 250	2 249	314	372	114	65
Profit after finance income	899.00	396 851.00	-969 026.00	443.00	563.00	787.00	898.00	454.00	622.00
Income from other investments	-	-	-	-	-	-	47 300.00	-	-
Share of operating income of associated company	-	-	-	-	-	-	-	-	-
	173			2 250	2 249	314	372	114	65
Profit/(loss) before taxation	899.00	396 851.00	-969 026.00	443.00	563.00	787.00	898.00	454.00	622.00
	-275	-126				-141	243		-26
Taxation	195.00	162.00	428 453.00	-665 679.00	-805 335.00	960.00	084.00	-47 124.00	211.00
	-648			1 584	2 366	172	179		39
Profit/(loss) after taxation	294.00	289 689.00	-906 275.00	804.00	426.00	887.00	797.00	73 330.00	411.00
									-9
Minority interest	-12 296.00	388.00	-13 847.00	-68 762.00	-93 569.00	52 734.00	-43 333.00	-82 422.00	193.00
Profit/(loss) attributable to members of the company	-869			1 516	1 272	1201	132		30
	590.00	280 877.00	-404 122.00	062.00	859.00	115.00	484.00	60 908.00	218.00
	-105	-126							
Dividend	354.00	014.00	-129 830.00	-329 280.00	566 952.00	-31 341.00	-38 295.00	8 613.00	1 267.00
	-562			1 180					33
Retained profit	944.00	154 863.00	-401 952.00	750.00	405 907.00	88 975.00	94 877.00	69 521.00	185.00
BALANCE SHEET:									
Non-current assets									
	3 252	3 142	1 473	1 500	1 418	477	361	200	197
Properties, plant and equipment	384.00	853.00	082.00	448.00	337.00	036.00	630.00	130.00	671.00
Goodwill	26 290.00	26 290.00	-	-145 450.00	-163 355.00	-	-	-	-
Investments	13 348.00	13 348.00	8 558.00	8 571.00	2 809.00	4 195.00	4 195.00	4 835.00	4 614.00
	1 202	3 142	1 481	1 303	1 237	481	565	204	201
	922.00	491.00	640.00	869.00	781.00	231.00	825.00	965.00	685.00
Current assets									
	352								24
Bank and cash	349.00	812 236.00	636 832.00	708 906.00	105 735.00	53 834.00	27 688.00	69 451.00	320.00
	1 599	2 149	2 379	3 399	4 078	1 879	1 572	113	31
Other current assets	406.00	738.00	751.00	443.00	757.00	201.00	315.00	900.00	160.00
	1 951	2 950	3 036	6 138	5 084	1 433	1 695	183	58
	945.00	884.00	583.00	843.00	532.00	635.00	003.00	331.00	480.00
	5 143	6 314	4 918	7 472	6 362	1 914	2 170	908	280
Total assets	867.00	375.00	223.00	212.00	313.00	266.00	828.00	516.00	165.00
Equity of Company									
	3 734	3 734	3 734	3 734	3 734	1 398	1 398		
Ordinary shares	834.00	839.00	799.00	799.00	799.00	780.00	274.00	-	
	578	-167	-1 940			-475	-217		
Reserves	981.00	295.00	078.00	150 714.00	-390 944.00	328.00	269.00	-	-
	3 154	3 567	2 434	3 851	3 343	923	1 492	283	232
	158.00	345.00	771.00	514.00	855.00	452.00	063.00	419.00	452.00
						344	395		27
Minority interest	12 965.00	34 199.00	103 300.00	108 531.00	152 881.00	687.00	540.00	34 122.00	170.00
Non-current liabilities									
Borrowings	-	-	-	2 366.00	16 682.00	11 145.00	20 590.00	-	-
	998						103		
Deferred liabilities	798.00	997 649.00	403 256.00	322 859.00	445 138.00	94 646.00	473.00	-	-
	998					205	524		
	798.00	997 649.00	403 256.00	325 005.00	461 820.00	831.00	063.00	0.00	0.00
Current liabilities									
						125			
Borrowings	-	-	203 622.00	364 615.00	36 367.00	274.00	76 493.00	66 375.00	584.00
	945	1 343	1 369	2 382	2 547	615	659		
Other current liabilities	945.00	272.00	474.00	548.00	450.00	623.00	667.00	-	-
	945	1 343	1 938	2 747	2 403	740	886		
	945.00	272.00	644.00	913.00	257.00	898.00	160.00	66 375.00	584.00
	5 143	6 314	4 918	7 472	6 362	1 914	2 170	908	280
Total equity and liabilities	867.00	375.00	223.00	212.00	313.00	266.00	828.00	516.00	165.00
INVESTMENT									
	168					208			
Capital expenditure	122.00	158 591.00	185 888.00	299 394.00	415 397.00	568.00	-	-	-
	-510	-234	-1 078	1 623	1 298	-855			
Current assets (decrease)/increase	833.00	038.00	759.00	810.00	-933.00	357.00	-		

DELTA- INFLATION ADJUSTED DATA

	2006 ZSm	2005 ZSm	2004 ZSm	2003 ZSm	2002 ZSm	2001 ZSm	2000 ZSm	1999 ZSm	1998 ZSm
Turnover	34 483 176.00	3 459 031.00	2 542 331.00	1 373 811.00	43 971 000.00	24 985 000.00	18 101 000.00	12 000 921.00	8 389 066.00
Net operating costs	-29 726 287.00	-3 067 971.00	-2 416 321.00	-996 859.00					
Operating income	4 756 889.00	391 060.00	126 010.00	376 952.00	9 612 000.00	24 985 000.00	18 101 000.00	12 000 921.00	8 389 066.00
Non-recurring items	-	-	-2 105.00	-5 282.00					
Net financing income	486 855.00	45 234.00	123 483.00	84 321.00	-793 000.00	-1 291 000.00	-934 000.00	-362 281.00	-178 828.00
Monetary loss	-1 567 446.00	-73 086.00	-80 742.00	26 168.00	-				
Equity accounted loss/earnings	-266 972.00	26 864.00	7 570.00	8 751.00	-				
	409 326.00	390 072.00	241 734.00	244 568.00	8 819 000.00	23 694 000.00	17 167 000.00	11 638 640.00	8 210 238.00
Taxation	7 187.00	-8 330.00	30 565.00	-32 490.00	2 152 000.00	515 000.00	-127 000.00	-105 596.00	-217 739.00
Income after taxation	416 513.00	341 762.00	225 699.00	172 033.00	7 298 000.00	21 179 000.00	16 340 000.00	11 532 650.00	7 992 499.00
Attributable to:									
Equity holders of the parent company	263 693.00	-	-	-					
Minority interest	152 820.00	-8 396.00	-29 345.00	-7 025.00	-564 000.00	-23 000.00	-216 000.00	-294 396.00	-32 274.00
Earnings attributable to shareholders	833 026.00	373 366.00	196 336.00	165 008.00	6 544 000.00	23 156 000.00	16 124 000.00	11 238 254.00	7 960 225.00
Dividends	-	-368 739.00	-72 504.00	-53 484.00	-				
Retained earnings for the year	833 026.00	295 256.00	123 832.00	111 524.00	6 544 000.00	23 156 000.00	16 124 000.00	11 238 254.00	7 960 225.00
BALANCE SHEET:									
ASSETS									
Non-current assets									
Property, plant and equipment	16 932 079.00	2 326 704.00	1 315 479.00	624 969.00	9 638 000.00	5 432 000.00	5 128 000.00	4 559 777.00	2 686 228.00
Biological assets	445 259.00	-	-	-	-	-	-	-	-
Investments in associates	333 713.00	59 114.00	41 114.00	17 053.00	450 000.00	-	-	-	-
Investments and other long term assets	334 214.00	11 659.00	32 135.00	13 825.00	698 000.00	803 000.00	432 000.00	222 392.00	177 077.00
	18 035 247.00	421 477.00	1 388 728.00	655 838.00	4 786 000.00	6 235 000.00	5 560 000.00	4 782 169.00	2 863 305.00
Current assets									
Inventories	6 049 832.00	608 593.00	366 712.00	299 362.00	5 251 000.00	3 574 000.00	2 386 000.00	1 328 098.00	958 635.00
Debtors	2 640 394.00	231 453.00	124 243.00	61 686.00	3 398 000.00	3 205 000.00	2 442 000.00	1 924 172.00	1 582 955.00
Short-term loans	16 198.00	3 867.00	1 119.00	684.00	356 000.00	1 882 000.00	1 496 000.00	1 718 175.00	607 948.00
Cash and cash equivalents	305 828.00	282 262.00	29 886.00	41 353.00	2 434 000.00	230 000.00	264 000.00	276 486.00	56 827.00
	9 012 252.00	1 126 616.00	921 962.00	403 085.00	12 439 000.00	8 911 000.00	6 588 000.00	5 546 932.00	3 206 365.00
Total assets	27 047 499.00	2 548 093.00	2 310 690.00	1 061 923.00	17 225 000.00	15 126 000.00	12 148 000.00	10 329 101.00	6 069 670.00
EQUITY AND LIABILITIES									
Capital and Reserves									
Share capital	3 163 738.00	312 146.00	312 135.00	159 532.00		-	-	-	-
Share premium	7 392 534.00	617 654.00	567 266.00	249 664.00		-	-	-	-
Share options reserve	253 944.00	-	-	-		-	-	-	-
Non-distributable reserves	-	-	-	-		-	-	-	-
Distributable reserves	4 397 157.00	499 290.00	393 417.00	243 668.00		-	-	-	-
Proposed dividend	324 639.00	319 951.00	32 202.00	30 208.00		-	-	-	-
	15 531 990.00	1 949 035.00	1 310 020.00	630 072.00	0.00	7 827 000.00	5 961 000.00	5 352 914.00	3 414 000.00
Minority interest	2 528 828.00	62 216.00	56 161.00	16 950.00	306 000.00	1 130 000.00	1 106 000.00	907 147.00	404 946.00
Total equity	28 060 818.00	3 621 251.00	2 366 181.00	517 022.00	8 190 000.00	8 957 000.00	7 067 000.00	6 260 061.00	3 819 006.00
Non-current liabilities									
Long-term borrowings	20 094.00	94.00	710.00	648.00	94 000.00	28 000.00	491 000.00	93 828.00	27 126.00
Tax equalisation and deferred taxation	5 510 980.00	394 683.00	488 678.00	187 099.00	1 458 000.00	495 000.00	325 000.00	209 974.00	129 809.00
	5 531 074.00	394 777.00	489 388.00	187 747.00	1 552 000.00	523 000.00	816 000.00	303 802.00	156 935.00
Current liabilities									
Short-term borrowings	150 481.00	3 942.00	23 437.00	29 955.00	356 000.00	1 882 000.00	1 496 000.00	1 378 276.00	607 948.00
Creditors	2 453 614.00	358 471.00	256 423.00	138 403.00	5 669 000.00	3 269 000.00	2 564 000.00	2 073 088.00	1 356 742.00
Taxation	871 312.00	201 952.00	195 201.00	58 801.00	1 458 000.00	495 000.00	325 000.00	309 974.00	129 969.00
	3 475 407.00	564 365.00	475 061.00	227 159.00	7 483 000.00	5 646 000.00	4 385 000.00	3 761 338.00	2 094 659.00
Total equity and liabilities	27 067 299.00	2 548 093.00	2 310 690.00	1 061 923.00	17 225 000.00	15 126 000.00	12 148 000.00	10 329 101.00	6 069 670.00

OK - INFLATION ADJUSTED DATA

	2006	2005	2004	2003	2002	2001	2000
	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000
Turnover	18 102 475 771.00	1 832 310 796.00	577 547 142.00	79 063 022.00	22 546 658.00	10 370 000.00	11 106 000.00
Operating (loss)/income	-430 372 978.00	-4 988 365.00	-36 592 707.00	676 243.00	352 895.00	335 000.00	406 000.00
Financing income/(costs)	698 974 333.00	55 754 236.00	7 848 938.00	304 735.00	-29 357.00	-42 000.00	8 000.00
Fair value adjustments			-	-	-	96 000.00	-
Monetary gain	559 911 422.00	31 855 990.00	30 005 060.00	2 398 321.00	230 129.00	290 000.00	134 000.00
Income before taxation	819 512 777.00	82 622 861.00	27 256 292.00	2 026 269.00	553 667.00	580 000.00	548 000.00
Taxation (credit)/charge	-139 639 651.00	5 009 571.00	-5 782 113.00	1 291 374.00	316 627.00	10 000.00	-64 000.00
Income after taxation attributable to Shareholders	679 873 126.00	77 612 490.00	21 474 178.00	3 317 383.00	880 294.00	590 000.00	484 000.00
Interim dividend paid		15 309 114.00	4 990 004.00	484 053.00	-	-	-
Proposed final dividend		61 688 368.00	11 355 452.00	1 462 000.00	550 830.00		-
Retained income/(loss) for the year	679 873 126.00	61 615 008.11	5 123 722.11	1 371 330.00	329 464.00	590 000.11	484 000.00
BALANCE SHEET:							
Shareholders equity	1 580 174 292.00	132 655 874.00	51 069 071.00	7 696 815.00	2 975 853.00	1 740 000.00	926 000.00
Deferred taxation	391 878 827.00	26 692 095.00	11 066 933.00	1 359 760.00	162 355.00	225 000.00	295 000.00
Interest bearing debt					602.00	275 000.00	47 000.00
Total capital employed	1 972 053 119.00	159 347 969.00	62 136 004.00	9 056 575.00	3 138 809.00	2 040 000.00	1 268 000.00
Non current assets							
Properties, plant and equipment and related	1 084 304 560.00	87 216 049.00	35 690 119.00	4 226 620.00	877 543.00	910 000.00	860 000.00
Investments, goodwill and other non current assets	66 208 137.00	5 569 032.00	2 685 056.00	262 460.00	465 582.00	295 000.00	67 000.00
	1 150 512 727.00	92 785 081.00	38 375 177.00	4 489 080.00	1 343 125.00	1 205 000.00	927 000.00
Current assets							
Stocks	1 399 452 571.00	96 379 912.00	44 079 689.00	7 413 471.00	1 658 601.00	710 000.00	619 000.00
Debtors	322 693 741.00	17 318 575.00	2 908 253.00	2 617 137.00	1 238 370.00	777 000.00	949 000.00
Short term loans			-	-	-	2 000.00	-
Bank balances and cash	452 364 504.00	26 067 132.00	32 078 934.00	298 139.00	814 681.00	107 000.00	64 000.00
	1 988 452 816.00	239 765 618.00	86 016 876.00	10 823 737.00	3 711 652.00	1 596 000.00	1 632 000.00
Total assets	3 138 965 543.00	332 550 698.00	124 392 053.00	15 312 817.00	5 054 774.00	2 801 000.00	2 559 000.00
Interest free liabilities							
Trade and other							
Creditors	1 186 395 589.00	152 682 972.00	53 400 873.00	5 876 059.00	1 950 597.00	1 041 000.00	1 235 000.00
Taxation	70 556 435.00	20 520 755.00	8 655 179.00	880 593.00	344 770.00	123 000.00	116 000.00
	1 176 912 424.00	173 222 727.00	62 256 052.00	6 756 652.00	2 095 367.00	1 164 000.00	1 351 000.00
Total employment of capital	1 972 053 119.00	159 347 969.00	62 136 004.00	8 556 165.00	3 138 807.00	1 640 000.00	1 208 000.00

ZIMSUN- INFLATION ADJUSTED DATA

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	ZS'000	ZS'000	ZS'000	ZS'000	ZS'000	ZS'000	ZS'000	ZS'000	ZS'000
	11 491	234 382	80 915	159 871	5 165	3 220	1 728	1 267	857
Turnover	023 00	408 00	145 00	552 00	765 00	742 00	388 00	876 00	504 00
	-5 774	-42 293							
Materials and consumables used	230 00	606 00							
Depreciation, amortisation and impairment charges	-3 545	-26 517							
	368 00	665 00							
Staff Costs	-3 334	-73 361							
	255 00	979 00							
Other Operating Expenses	-660	-98 646							
	280 00	377 00							
			-85 541	-123 423	-4 602	-4 491	1 397	997	668
Net operating costs			803 00	058 00	250 00	703 00	178 00	537 00	474 00
	176	-4 441	-4 620	36 448	-1 436	-1 270	326	270	176
Operating (loss)/profit	490 00	219 00	160 00	494 00	481 00	961 00	213 00	339 00	830 00
				1 600					
Share of profit of associates	18 997 00	805 184 00	656 692 00	911 00	-	-			
					-21	-74			
Equity accounted losses			-	-	947 00	992 00			
		-6 283	-1 862	-2 165	-922	-1 274	-197	131	-25
Net financing (costs)/income	-2 736 00	795 00	885 00	474 00	630 00	651 00	324 00	170 00	228 00
	-3 162								
Monetary items gain	330 00								
	-2 969	-12 570	-5 832	42 214	-2 381	-2 639	162	431	158
Net (loss)/profit before non-recurring items	615 00	817 00	849 00	879 00	058 00	984 00	489 00	517 00	052 00
			-15 411		345	-363			
Non-recurring items			166 00	-	937 00	121 00			
			-26 780	-17 572	-348	-139			
Fair value adjustments			321 00	619 00	716 00	938 00			
Recovery of prior years' impairment of fixed assets			-	-	654 001 00	-			
		-3 206	-1 467	-65 092	1 783	-1 270			
Monetary (loss)/gain		100 00	796 00	625 00	428 00	-12 00			
Profit/(loss) from ordinary activities before taxation	-2 969	-15 915	-49 492	-40 450	253	-1 656	162	401	168
	449 00	917 00	192 00	365 00	282 00	931 00	489 00	917 00	052 00
	-1 036	4 584	-8 431	-12 868	-32	3 666			
Taxation	243 00	574 00	482 00	741 00	286 00	-50 00	-		
	-2 305	-11 331	-42 910	-52 320	221	-589	162	401	168
(Losses)/profits for the year after taxation	692 00	343 00	674 00	220 00	996 00	981 00	489 00	917 00	052 00
(Losses)/profits for the year attributable to:									
			-42 717	-53 920	243	514			
The group			342 00	037 00	053 00	980 00			
				1 600	-21	-74			
Associated companies			656 692 00	911 00	947 00	992 00			
			-42 960	-52 319	221	-589			
	-		160 00	126 00	1 600	981 00	1 000	1 000	1 000

BALANCE SHEET:

ASSETS

Non-current assets									
	28 939	81 094	48 197	55 294	9 234	10 941	2 370	2 048	1 825
Properties, plant, equipment, and vehicles	804 00	562 00	337 00	391 00	864 00	620 00	995 00	593 00	437 00
	213						149	60	61
Investments and loans	947 00						324 00	249 00	211 00
	13 538								
Investments in associates	954 00						-		
	397								
Intangible assets	025 00						-		
Biological assets	31 710 00						-		
Deferred taxation asset	23 151 00						649 00	649 00	649 00
		6 225	1 593	6 687	253	339	14		
Unlisted investments and loans		1441 00	390 00	765 00	557 00	930 00	650 00	-	-
			4 587						
Listed investments		253 960 00	505 00	-	-	-	-	-	-
		9 601	1 956						
Deferred expenditure		192 00	674 00	-	-	-	-	-	-
	42 653	28 283	56 339	62 402	9 446	11 280	2 935	2 109	1 087
	690 00	219 00	566 00	096 00	861 00	550 00	628 00	590 00	197 00
Current assets									
	532	7 782	3 900	1 822	157	185	83	45	34
Inventories	633 00	025 00	477 00	556 00	110 00	757 00	762 00	780 00	815 00

Trade and other receivables	1 410 960.00	32 535 946.00	12 011 924.00	7 930 718.00	395 123.00	534 867.00	249 568.00	226 708.00	144 802.00
Cash and cash equivalents	635 605.00						-	-	-
Available-for-sale asses			-	156 918 588.00	-	-	-	-	-
Elephant Hills Inter-continental fire insurance proceeds outstanding			-	-	497 257.00	-	-	-	-
Net interest earning loans			-	4 395 752.00	173 610.00	-	-	-	-
Short term loans			9 134.00	18 249.00	2 756.00	8 370.00	-	-	-
	2 629 598.00	40 313 971.00	15 521 535.00	274 085 863.00	1 224 856.00	728 991.00	333 393.00	272 488.00	178 535.00
Total assets	45 272 888.00	515 85 141.00	71 857 161.00	235 977 959.00	71 671 317.00	5 602 543.00	2 868 958.00	2 381 887.00	1 266 412.00
Shareholders' equity									
Share capital	638.00	579 969.00	579 969.00	579 797.00	524 081.00	523 882.00	-	-	-
Share premium	74 546.00	303 094.00	303 094.00	302 923.00	228 588.00	228 348.00	-	-	-
Inflation adjustment to share capital and share premium	27 477 276.00	798 626 726.00	356 517 251.00	356 517 207.00	15 304 010.00	15 304 010.00	-	-	-
Revaluation reserve	20 953.00		-	-	-	-	-	-	-
Fair value reserve		10 017 300.00					-	-	-
Foreign currency translation reserve	33 323 709.00	3 753 783.00	3 127 886.00	-553 702.00	-	-	-	-	-
(Accumulated losses)/Distributable reserves	-28 888 564.00	-725 880 206.00	-319 420 938.00	-213 377 479.00	-9 730 442.00	-9 952 648.00	-	-	
Total shareholders' equity	32 912 745.00	87 402 263.00	41 107 242.00	243 468 647.00	6 225 787.00	5 904 141.00	1 770 248.00	1 495 506.00	953 268.00
LIABILITIES									
Non-current liabilities									
Borrowings	75 853.00						0.00		
Long term loan		5 202 519.00					741 388.00	367 048.00	98 421.00
Deferred taxation	30 934 842.00	23 564 405.00	12 476 520.00	66 064 579.00	2 424 671.00	2 392 485.00	649.00	649.00	649.00
Deferred liability			-	-	-	1 184.00			
Net interest bearing debt			309 660.00	-	-	3 960 557.00			
	11 050 685.00	29 766 923.00	12 846 170.00	66 064 579.00	2 424 671.00	5 454 426.00	742 037.00	649.00	649.00
Current liabilities									
Borrowings	163 504.00						0.00		
Elephant Hills Inter-continental provision for rebuild							0.00		
Fellow subsidiaries							-		
Preference dividend payable			-	-	1 571 914.00	-	96 399.00	146 266.00	65 481.00
Net interest bearing debt			-	-	-	35 824.00	0.00		
Trade and other payables	2 086 133.00		-	-	-	165 738.00	260 044.00	361 587.00	142 462.00
		3 795 758.00							
		41 705 772.00	17 903 669.00	26 444 733.00	549 395.00	449 365.00		377 859.00	104 152.00
	2 249 637.00	45 501 530.00	17 903 669.00	26 444 733.00	2 121 309.00	650 527.00	356 443.00	885 972.00	312 095.00
Total liabilities									
Total equity and liabilities	13 299 482.00	75 268 454.00	30 749 839.00	92 508 312.00	4 546 981.00	6 076 953.00	1 098 480.00	1 534 982.00	961 364.00
	45 272 888.00	150 670 717.00	71 857 161.00	235 977 959.00	71 671 317.00	12 390 543.00	2 868 958.00	2 381 887.00	1 266 412.00

FA HOLDINGS - INFLATION ADJUSTED DATA

	2006 ZS'000	2005 £S'000	2004 £S'000	2003 ZS'000	2002 ZS'000	2001 £S'000	2000 £S'000	1999 ZS'000	1998 ZS'000
		2 180 327	2 072 140	51 480	12 283	4 389	6 969	16 321	6 135
Revenue		661.00	963.00	664.00	404.00	341.00	055.00	999.00	267.00
		-2 017 108	-1 994 035	-45 924	-11 259	-3 846	-5 497	-3 799	-5 919
Less operating costs		621.00	744.00	257.00	300.00	472.00	361.00	905.00	104.00
		166 218	78 105	5 556	1 124	533	1 531	2 530	216
Trading profit/(loss)		240.00	219.00	467.00	104.00	869.00	694.00	494.00	102.00
		317 339	264 033						
Realised investment income		095.00	694.00		-	-	-	-	-
		772 348	179 461						
Unrealised investment income		712.00	211.00	-		-	-	-	-
		699 366	179 461						
- Equities		055.00	211.00				-		
- Properties and other		72 782							
		687.00	-				-		
		1 255 906	521 398	5 556	1 124	533	-348		216
Operating profit before finance charges	-	377.00	124.00	407.00	104.00	869.00	291.00	90 726.00	369.00
		-32 776	-69 971	-1 613		-48	-328	-581	-222
Net interest charges		263.00	047.00	881.00	61 132.00	489.00	707.00	139.00	675.00
Share of associated companies		-18 632	-162 063					822	
Dividends		416.00	254.00				87 998.00	362.00	
		-946 063	-239 935				208	732	
Minority bits		241.00	551.00				548.00	964.00	
		269 233	89 683	22 135	1 187	918	-381	584	143
Profit before tax	-	657.00	272.00	631.00	236.00	469.00	252.00	094.00	535.00
		-166 051	-97 528	-7 442	-723	-447		-315	-189
Taxation		713.00	469.00	556.00	725.00	158.00	32 261.00	122.00	385.00
		103 181	-7 918	14 693	461		-348	234	
Profit/(loss) after tax	-	947.00	188.00	075.00	511.00	-68 311.00	991.00	972.00	34 150.00
								-109	
Reorganisation activities								880.00	
		103 181	-7 918	14 693	461		-348	129	
(Loss)/profit from ordinary activities	-	947.00	188.00	075.00	511.00	-68 311.00	991.00	092.00	34 150.00
Attributable to:									
		51 626	-122 909						
- Equity holders of parent company		221.00	191.00				-	-	
		53 555	114 991						
- Minority interests		226.00	109.00				-3 182.00	28 361.00	
		210 363	-15 836		461		-352	157	
Profit attributable to shareholders	-	894.00	376.00		511.00	68 311.00	173.00	353.00	34 150.00
Preference dividend		-					-6 657.00	-4 223.00	
Profit attributable to ordinary shareholders	-	210 363 894.00	-15 836 476.00		461 511.00	68 311.00	-258 853.00	149 331.00	34 150.00
BALANCE SHEET:									
ASSETS									
Non-current assets									
		1 119 542	1 294 230	15 422	6 666	223	1 290	2 298	1 180
Property, plant and equipment		643.00	448.00	636.00	448.00	293.00	363.00	646.00	937.00
		468 530	234 073						
Investment properties		521.00	156.00				-	-	
			11 725						
Intangible assets		3 105 712.00	934.00				9 611.00	10 423.00	
		2 349 352	1 379 987						
Available for sale investments		275.00	627.00				-	-	
		611 594	468 337						
Investment in Associates		934.00	382.00				-	-	
				99 464	9 197	6 288	1 659	1 796	813
Investments				126.00	695.00	552.00	972.00	678.00	666.00
		4 353 131	3 388 654	115 086	15 861	6 512	2 959	3 983	1 991
Total non-current Assets	-	213.00	463.00	762.00	143.00	158.00	966.00	724.00	583.00
Current assets									
		17 446	14 549					421	
Inventories		857.00	036.00				69 937.00	839.00	
		2 343 763	1 121 684						
Reinsurance receivables		803.00	686.00				-	-	
		841 959	100 188						
Deferred acquisition costs		182.00	393.00				-		
		977 802	551 443				3 359	1 359	
Accounts receivable		639.00	004.00				067.00	867.00	
		1 148 429	102 413				829	757	
Deposits and cash		594.00	917.00				140.00	440.00	
				69 008	2 167	971			1 052
Other current assets				333.00	882.00	549.00			186.00
		4 218 493	1 899 235				2 258	2 536	
Total current assets	-	273.00	073.00	-	-	-	344.00	346.00	-
		8 571 534	5 278 337	115 086	15 861	6 512	5 217	6 522	1 991
Total assets	-	484.00	537.00	762.00	143.00	158.00	893.00	724.00	583.00
EQUITY AND LIABILITIES									
Issued share capital		153 809.00	100 394.00				98 712.00	98 532.00	
		22 299							
Share premium		441.00	122 371.00				-	-	
		1 634 280	3 090 944				8 119	4 050	
Other reserves		519.00	172.00				109.00	208.00	

		-1 491 098	-1 500 532				-2 894	-2 553	
Retained earnings		785.00	583.00				770.00	041.00	
Equity attributable to equity holders of the		2 165 595	1 590 634				1 323	1 595	
parent company	-	072.00	354.00		-	-	051.00	709.00	-
		515 829	179 835				367	451	
Minority interests		160.00	350.00				193.00	292.00	
		2 681 424	1 770 469	35 394	2 313	1 690	1 690	2 047	638
Total equity	-	232.00	704.00	9 916.00	468.00	975.00	244.00	501.00	581.00
Non-current liabilities									
Debentures		-	-					12 988.00	
		453 493	343 617	29 598	773	460			
Long and medium term loans		474.00	811.00	677.00	685.00	953.00	5 839.00	13 252.00	57 674.00
		720 188	460 451				1 256	1 296	
Life insurance fund		466.00	496.00	-	-	-	632.00	345.00	-
		281 535	156 917		138		412	164	111
Deferred taxation		697.00	610.00	844 663.00	725.00	13 713.00	298.00	366.00	515.00
		1 435 217	961 966	30 043	912	474	1 253	1 986	159
Total non-current liabilities	-	617.00	917.00	340.00	410.00	564.00	173.00	951.00	189.00
Current liabilities									
		80 895	76 022				570	1 126	
Short term loans and overdrafts		269.00	887.00				543.00	561.00	
		-	-				199	266	
Insurance claims outstanding							074.00	429.00	
		2 121 343	917 803						
Reinsurance payables		407.00	282.00				-	-	
		559 048	457 366						
Gross outstanding claims		227.00	376.00				-	-	
		1 251 475	740 227				187	291	
Gross unearned premium		928.00	583.00				406.00	042.00	
		519 736	340 627				690	1 142	
Accounts payable		393.00	046.00				451.00	189.00	
					12 738	4 946	514		1 176
Other Liabilities					265.00	519.00	209.00		823.00
		22 427	21 433	49 258			112	161	
Taxation		414.00	142.00	503.00			890.00	202.00	
		4 654 892	2 547 510	49 258	12 738	4 946	2 277	2 987	1 176
Total current liabilities		618.00	816.00	503.00	265.00	519.00	573.00	622.00	823.00
		8 771 534	5 278 937	115 786	5 864	6 512	5 217	6 522	1 994
Total equity and liabilities	-	467.00	437.00	762.00	43.00	158.00	990.00	034.00	593.00

ECONET - INFLATION ADJUSTED DATA

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000
	79 477	1 085 333	866 805	230 696	8 135	7 847	1 270	-133	
Revenue	544 00	547.00	260.00	331.00	233 00	220 00	433.00	669.00	
	-20 863	-269 992	-138 854	-60 963	-2 422	-2 018			
Cost of sales and material services sold	624 00	629.00	406.00	957 00	371 00	330.00			
	58 613	875 340	667 950	169 732	5 712	5 828	1 270	433	
Gross Profit	920 00	918 00	854 00	377.00	862 00	496 00	433.00	669 00	
	5 114	79 268		4 892	109				
Other income	795.00	348.00	7 561 413.00	347 00	766 00	29 282 00	-	-	
	-20 929	-139 674	-98 371	-16 599	-527	-684			
Employee costs	256.00	520.00	196.00	974.00	642 00	492 00	-	-	
Operating costs							-	-	
	-2 933	-43 808	-49 126	-11 795	-817	-531			
- Administration	015.00	045.00	961.00	350 00	004.00	330.00	-	-	
	-2 545	-66 627	-36 738	-3 329	-503	-418			
- Marketing and sales	803.00	630.00	541.00	974.00	906.00	257.00	-	-	
	-2 952	-36 757	-28 857	-19 758	-948	-899			
- Network	009.00	912.00	617.00	247.00	822.00	215.00	-	-	
	-4 843	-59 315	-41 314	-12 590	-1 686	-1 556			
- Other	957.00	014.00	260.00	622.00	954.00	876.00	-	-	
Earnings before net finance income, taxation, depreciation, amortisation and monetary adjustment	41 620	608 136	421 123	119 550	4 833	1 699	371	71	
	635.00	055.00	718.00	557.00	303.00	493.00	109.00	324.00	
	19 669	-118 778	-112 058	-44 845					
Depreciation	576.00	532.00	794.00	173.00	-	-	-	-	
			-2 001	-957					
Amortisation	-70 260.00	-	283.00	691.00	-	-	-	-	
	-775				-900				
Net exchange (loss) gain	730.00	-	-	-	164.00	42 465.00	-	-	
	22 205	489 357	316 185	64 747	933	1 741	371	371	
Profit from operations	469.00	523.00	641.00	693.00	339.00	958.00	109.00	109.00	
		-7 293	-27 848	-9 880	-299	-951	252	57	
Finance costs	-70 999.00	812.00	903.00	858.00	074.00	257.00	470.00	206.00	
	5 870	80 845	42 737	4 933					
Finance income	834.00	816.00	966.00	826.00	-	-	-	-	
Profit before monetary adjustment, income from associate and taxation	26 906	562 309	321 458	59 769	574	799	118	428	
	404.00	465.00	236.00	664.00	865.00	801.00	359.00	315.00	-
		-115 256							
(Loss) profit on disposal of associate		817.00	-	-	-	-	-	-	
	-17 721	-236 993	-117 615	-13 142	1 680	266			
Monetary adjustment	-543.00	003.00	917.00	260.00	119.00	564.00	-	-	
	-16 815	210 059	203 843	46 627	2 154	1 057	118	31	
Profit before taxation	139.00	787.00	319.00	403.00	184.00	502.00	359.00	118.00	
	15 896	-153 765	-56 956	-26 096	-691	-628	-91		
Taxation	804.00	403.00	342.00	843.00	179.00	053.00	651.00	-5 702.00	
	5 081	52 174	136 483	20 530	1 463	428	76		
Profit after taxation	665.00	380.00	977.00	560.00	005.00	529.00	968.00	8 416.00	
	5 067	34 171	34 771				76		
Equity accounted earnings	028.00	724.00	040.00	-		-	968.00	8 416.00	
Monority share of loss (profit) at subsidiaries	14 637.00	148 293.00	-209 801.00	-7 094 954.00	49 278.00	-7 290.00	598.00	-	
Earnings for the year attributable to Shareholders	10 163	86 634	123 055	19 825	1 512	421	154	16	
	330.00	377.00	716.00	846.00	783.00	239.00	034.00	832.00	
BALANCE SHEET:									
ASSETS									
Non-current assets									
	33 905	848 868	680 804	255 186	50 711	9 778	2 128	954	
Property, plant and equipment	464.00	642.00	963.00	968.00	097.00	382.00	124.00	153.00	
	2 055	25 300	29 930	14 768	806	932			
Intangible assets	086.00	561.00	280.00	533.00	253.00	054.00	-	-	
	1 260	23 300		2 569		164	20		
Deferred tax asset	048.00	184.00	3 360 735.00	661.00	33 995.00	716.00	682.00	-	
	7 945	29 230	30 495	26 541	1 153	1 163	505	115	
Project investments	945.00	856.00	886.00	885.00	017.00	670.00	714.00	903.00	
	5 642	51 171	164 583						
Investments in associate	779.00	378.00	840.00	-	-	-	-	-	
	2 133	10 098	22 468						
Debtors and employment loans	255.00	400.00	660.00	-	-		-	-	

	96 942	1 027 150	972 654	299 066	2 769	12 858	2 63[illegible]	1 070
Total non current assets	577.00	803.00	358.00	438.00	462.00	822.00	521.00	556.00
Current assets								
	6 825	18 117		2 748		187		23
Inventories	673.00	577.00	4 415 393.00	606.00	78 592.00	561.00	-	102.00
	17 497	121 095	128 284	39 394	2 798	1 265		
Trade and other receivables	529.00	882.00	249.00	650.00	680.00	651.00	-	-
Dividend receivable		-	5 167 024.00	-	-	-	-	-
	13 999	161 774	88 985					
Short term investments	394.00	979.00	478.00	3 416.00	57 495.00	81 831.00	-	-
		17 578	25 603	3 598	126			49
Bank and cash	901 382.00	186.00	141.00	066.00	120.00	68 617.00	-	067.00
	39 224	318 562	252 455	45 744	3 040	1 603		72
Total current assets	328.00	624.00	275.00	078.00	885.00	660.00	0.00	500.00
	136 166	1 345 752	1 226 109	344 810	15 744	13 642	2 639	1 142
Total assets	955.00	645.00	633.00	526.00	347.00	482.00	521.00	225.00
EQUITY AND LIABILITIES								
Capital and Reserves								
Share capital	348.00	149 110.00	159 616.00	86 352.00	86 318.00	86 318.00		-
	4 187	39 271	42 119	35 728	680	680		
Share capital adjustment	702.00	499.00	546.00	774.00	761.00	761.00		-
	74 948	683 802	694 744	566 363	6 966	6 966		
Share premium	390.00	208.00	542.00	855.00	182.00	182.00	-	-
	-566							
Capital redemption reserve fund	829.00	11 815.00	1 042.00	-	-	-	-	-
			-137 600					
Foreign currency translation reserve	46 376.00	-	348.00		-	-	-	-
	1 405	59 679	164 048	44 986	1 406	-196		
Accumulated profit (loss)	253.00	950.00	234.00	423.00	131.00	652.00	-	-
	3 715	32 095	36 223	3 204				
Dividend proposed	117.00	895.00	159.00	809.00	-	-	-	-
	83 795	885 010	818 687	226 370	9 059	7 546	1 600	306
Ordinary shareholders interest	127.00	667.00	793.00	270.00	392.00	669.00	519.00	565.00
Minority interest	58 643.00	407 384.00	565 379.00	825 636.00	8 973.00	37 643.00	6 536.00	-
	83 854	985 418	819 253	228 795	9 068	7 584	1 609	336
Total capital and reserves	770.00	351.00	170.00	906.00	365.00	252.00	079.00	565.00
Non-current liabilities								
	21 712	706 977	194 228	68 375	2 395	1 898	30	
Deferred tax liabilities	716.00	015.00	888.00	523.00	349.00	546.00	663.00	-
						717	576	650
Interest-bearing debt		-	2 870 358.00	14 043.00	16 308.00	170.00	299.00	318.00
			30 823	7 359	328			
Deferred revenue		-	437.00	150.00	593.00	-	-	-
	21 712	706 977	227 928	75 747	2 790	2 615	586	650
Total non-current liabilities	716.00	015.00	651.00	716.00	046.00	716.00	962.00	318.00
Current liabilities								
				9 251	2 221	1 697		
Interest-bearing debt		-	2 796 109.00	289.00	623.00	295.00	-	
	25 823	75 511	56 648	17 518	1 513	1 745	443	155
Trade and other payables	796.00	112.00	379.00	629.00	116.00	219.00	460.00	342.00
	2 349	31 767	43 698					
Provisions	960.00	947.00	797.00	-	-	-	-	-
	9 706	108 557	81 444	14 604				
Taxation	801.00	258.00	911.00	460.00	-	-	-	-
		19 460						
Other Liabilities		000.00					-	-
	3 659	24 061		4 892	151			
Deferred revenue	779.00	262.00	399 614.00	526.00	197.00	-		-
	50 590	263 357	178 927	40 266	3 885	3 442	443	33
Total current liabilities	469.00	529.00	861.00	904.00	934.00	514.00	460.00	342.00
	136 366	1 343 752	1 226 109	344 810	15 744	13 642	2 639	1 142
Total equity and liabilities	955.00	645.00	633.00	526.00	347.00	482.00	521.00	225.00

HWANGE - INFLATION ADJUSTED DATA

	2006	2005	2004	2003	2002	2001	2000	1999	1998
	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000	Z$'000
	50 969	2 534 407	538 607	238 959	8 434	4 777	3 305	2 368	1 324
Revenue	282 53	791 00	353 00	347 00	407 00	886 00	414 00	216 00	463 00
	-15 862	-1 856 664	-331 061	-265 172	-8 400	-4 533	-3 967	-2 106	-918
Cost of sales	342 19	216 00	698 00	741 00	598 00	417 00	635 00	805 00	922 00
	15 136	677 743	207 545	-26 213	53	244	237	241	305
Gross profit	935 34	675 00	555 00	374 00	809 00	469 00	729 00	-411 00	541 00
			-1 055	-5 324					
Discontinuing operations		-	353 00	440 00					
	-1 357	313 975		39 976					
Other operating income	487 18	550 00	469 483 00	597 00					
	-311								
Marketing Costs	531 01								
Fair value adjustment on investment properties	10 712 915 97								
		-14 869	-6 340	-1 219					
Distribution costs		532 00	313 00	404 00					
	-9 271	-1 071 752	181 607	-98 853					
Administrative expenses	850 75	223 00	033 00	447 00					
	70 448	-43 248	-4 075	20 300					
Loss on net monetary position	256 92	223 00	929 00	843 00					
	35 327	-135 150	14 936	-71 533	35	244	237	241	305
(Loss)/profit from operations	239 29	362 00	410 00	215 00	809 00	469 00	729 00	411 00	541 00
	3 330	105 791	-8 455	-8 986	434	139	-107	-262	-34
Net finance income	330 31	192 00	208 00	904 00	129 00	670 00	729 00	002 00	147 00
	-305	128 446	14 810	59 141					
Impairment reversal	543 46	828 00	096 00	854 00					
	39 352	98 087	21 291	-21 298	487	384	133	39	271
Profit before taxation	026 14	708 00	298 00	265 00	938 00	139 00	040 00	-404 00	394 00
	-914	26 799	-19 415	7 500	-144	-99	145		-104
Taxation	744 94	070 00	914 00	793 00	438 00	508 00	050 00	4 459 00	634 00
	38 437	124 886	1 875	-13 797	353	284	275	43	166
Profit after taxation	281 20	778 00	384 00	472 00	500 00	631 00	990 00	86 100	793 00

BALANCE SHEET:

ASSETS

Non-current assets									
	38 195	2 571 317	413 379	466 407	1 284	1 719	1 572	1 655	1 645
Property, plant and equipment	672 38	794 00	042 00	644 00	744 00	992 00	366 00	905 00	181 00
	11 600	12 601	1 837	1 837	54	216	456	447	582
Investments	000 000	807 00	428 00	428 00	207 00	456 00	225 00	213 00	182 00
Loans receivable in more than one year	15 300 00	-	62 439 00	63 039 00		-	-	-	-
	19 611	2 583 919	235 278	468 308	1 838	1 955	2 128	2 101	2 227
	432 38	511 00	969 00	111 00	951 00	527 00	391 00	116 00	363 00
Current assets									
Deferred expenditure, M-Block discontinuing operations		-	-	1 055 353 00	-	-	-		-
	18 153	933 492	116 895	50 013					
Pre-stripped overburden	983 00	397 00	169 00	733 00	-	-	-	-	-
	28 702	353 637	43 077	26 107	1 619	1 346	638	595	599
Inventory	869 91	326 00	878 00	709 00	293 00	505 00	656 00	473 00	405 00
Recoverable deferred foreign currency differences	4 560 072 40	999 563 300 00	-	2 559 881 00	-	-	-	-	-
	5 009	468 696	171 347	44 141	2 998	1 772	1 360	718	510
Receivables and prepayments	926 15	907 00	171 00	345 00	958 00	135 00	955 00	827 00	567 00
					1 801	912	549	522	361
Short-term loans receivable	22 844 00	22 844 00	19 721 00	13 411 00	799 00	473 00	116 00	529 00	173 00
	416	47 753	21 240	12 319	282	132	93	88	109
Bank and cash balances	939 42	426 00	169 00	518 00	957 00	440 00	930 00	851 00	234 00
	56 866	2 803 183	351 580	141 251	6 903	4 263	2 642	1 825	1 401
	634 87	110 00	126 00	030 00	007 00	555 00	697 00	680 00	379 00
	106 625	5 387 102	756 959	609 559	8 741	6 119	4 671	3 926	3 627
Total assets	397 25	651 00	155 00	141 00	958 00	391 00	788 00	798 00	742 00

EQUITY AND LIABILITIES

Capital and reserves									
	51 930	3 687 854	537 713	537 707					
Share capital	462 94	096 00	125 00	500 00	-		-	-	-
	25 812	1 868 935	271 535	269 655					
Capital reserves	128 11	969 00	863 00	474 00	-	-	-	-	-
	2 283	-2 527 692	-392 886	-401 761					
Retained (loss)/profit	978 85	145 00	413 00	797 00	-	-	-	-	-
	79 029	2 939 098	809 362	405 693	2 902	1 677	1 392	1 117	2 086
	569 00	460 00	575 00	177 00	326 00	895 00	915 00	833 00	623 00

Non-current liabilities									
PLARP	51 686.48	77 680 484.00	-	-					
Lease Liabilities	685 825.82								
Deferred taxation	13 221 332.20	891 062 996.00	335 173 505.00	119 251 333.00	554 369.00	539 329.00	470 345.00	615 396.00	653 721.00
Long Term Debt					124 000.00	120 989.00	373 570.00	456 931.00	657 836.00
	73 958 892.51	968 152 480.00	335 173 505.00	119 251 333.00	678 369.00	640 218.00	843 915.00	1 071 697.00	1 311 557.00
Current liabilities									
Overdrafts	118 289.93	-	37 642.00	8 150 368.00	-	-	-	-	-
Bills and acceptance credits		28 330 777.00	2 610 952.00	902 450.00	-	-	-	-	-
Lease repayable within one year	4 572 293.68	1 011 784 784.00	37 849 803.00	24 233 446.00	-	-	-	-	-
Productive Sector Funding		-	11 497 085.00	-	-	-	-	-	-
PLARP	162 086.70	37 731 903.00	-	34 347 439.00	-	-	-	-	-
Lease liability	825 273.06				-	-	-	-	-
Payables	7 971 643.35	691 607 478.00	125 439 427.00	-	2 457 665.00	1 975 928.00	1 336 208.00	694 209.00	467 166.00
Other Liabilities					1 693 598.00	1 824 946.00	1 098 232.00	1 045 058.00	762 346.00
Provisions for decommissioning operation costs		1 264 978.00	1 866 105.00	3 389 495.00	-	-	-	-	-
		9 752 	3 582 	3 634 					
Provision for taxation	1 594.92	795.00	132.00	423.00	-	-	-	-	-
	13 651 082.45	1 479 851 712.00	222 423 155.00	84 726 631.00	6 084 263.00	5 800 867.00	2 434 440.00	1 739 258.00	1 229 512.00
	106 639 910.85	5 367 302 693.00	686 959 335.00	609 559 141.00	8 741 958.00	6 219 060.00	4 671 289.00	3 928 796.00	3 627 242.00
Total equity and liabilities									

BINDURA - INFLATION ADJUSTED DATA

	2006 ZS'000	2005 ZS'000	2004 ZS'000	2003 ZS'000	2002 ZS'000	2001 ZS'000	2000 ZS'000	1999 ZS'000	1998 ZS'000
Turnover	-	-	802 326 000 00	196 342 000 00	217 652 000 00	3 117 200 00	4 973 000 00	2 723 100 00	1 412 000 00
Nickel cathode			562 485 000 00	148 770 000 00	168 328 000 00	3 430 200 00	3 613 100 00		
By-products			48 298 000 00	9 903 000 00	5 520 800 00	850 700 00	769 200 00		
ToC refining			145 982 000 00	37 669 000 00	45 804 000 00	636 800 00	591 600 00		
Incentive income			47 561 000 00	-	-	-	-		
Operating profit			56 778 000 00	27 845 000 00	-92 202 000 00	723 300 00	792 600 00	556 300 00	127 900 00
Net interest payable			28 483 000 00	-5 342 000 00	05 1 000 00	-23 900 00	-9 600 00	-267 300 00	-138 900 00
Profit/(loss) before monetary adjustment		+	-11 705 000 00	22 703 000 00	-92 773 000 00	699 900 00	683 000 00	449 000 00	19 900 00
Monetary adjustment			17 660 000 00	63 575 000 00	35 146 000 00	-35 900 00	26 500 00		
Profit before taxation	+	+	5 955 000 00	86 278 000 00	-57 635 000 00	664 100 00	709 500 00	449 000 00	19 900 00
Taxation									
- current			-32 300 00 000 00	-10 105 000 00	-21 000 000 00	-46 500 00	-31 700 00	-63 500 00	24 500 00
- deferred			60 706 000 00	-2 355 000 00	25 839 000 00	69 300 00	-91 400 00		
Profit after taxation	-	+	28 725 000 00	73 818 000 00	-121 794 000 00	686 900 00	586 400 00	385 500 00	43 800 00
Appropriations				-38 066 00	-11 229 000 00	-20 600 00	-357 500 00		
Non-distributable reserves			-	-	-	-	398 400 00		
Interim dividend			-	-32 350 000 00	-11 229 00 00	-24 300 00	-8 800 00		
Proposed final dividend			-	-28 007 000 00	-	-46 300 00	-195 600 00		
Retained profit for the year	-	-	64 329 000 00	73 779 934 00	-133 023 000 00	666 300 00	228 400 00	385 500 00	43 800 00

BALANCE SHEET:

ASSETS

Non-current assets									
Fixed asses			902 561 000 00	103 219 000 00	119 982 000 00	3 699 100 00	3 500 300 00	1 346 400 000 00	1 192 700 000 00
Loans			5 291 000 00	2 160 000 00	699 000 00	31 200 00	2 900 00	18 700 00	21 600 000 00
Total non current assets	-	-	907 852 000 00	107 379 000 00	120 680 000 00	3 730 300 00	3 510 200 00	1 346 418 700 00	1 214 300 000 00
Current assets									
Stock			142 233 000 00	90 317 000 00	46 430 000 00	6 599 100 00	5 734 000 00	455 700 000 00	455 700 000 00
Sacks			60 769 000 00	27 586 000 00	23 269 000 00	804 000 00	3 021 000 00		
Debtors			302 421 000 00	22 906 000 00	10 891 000 00	7 512 000 00	8 138 000 00	524 200 00	197 500 000 00
Loans granted			-	-	-	151 000 00	3 897 000 00		
Short term deposits and cash at bank			20 375 000 00	-	-	-	-	196 300 000 00	2 500 000 00
Shareholders investments			2 519 000 00	1 716 000 00	740 00	123 60	304 63	388 100 000 00	285 500 000 00
Total current assets			528 218 000 00	141 928 000 00	70 490 240 00	14 565 722 60	20 810 304 60	1 036 021 100 00	941 200 000 00
TOTAL ASSETS	-	-	837 560 000 00	249 298 000 00	191 170 720 00	18 295 452 60	24 320 504 60	2 382 442 800 00	2 155 500 000 00

EQUITY AND LIABILITIES

Capital and reserves									
Share capital			126 00	126 00	126 00	226 00	126 00	-	-

Share capital / inflation adjustment			459 981.00	193 559.00	197 359.00	4 334.50	4 334.50	-	-
Non-distributable reserves			123 428.00	5 494.00	5 494.00	124.00	569.50	-	-
Distributable reserves			-41 144.00	-89 241.00	-117 043.00	-1 718.30	-1 718.80	-	-
Proposed final dividend			-	38 907.00	-	63.00	195.60	-	-
Shareholders' equity	-	-	542 591.00	142 845.00	86 136.00	2 929.20	3 510.80	1 379 400.00	1 449 700.00
Long term loans			-	-	-	3.10	20.10	13 000.00	10 500.00
Deferred taxation			70 823.00	36 900.00	26 685.00	995.10	629.70	270 400.00	227 300.00
Environmental rehabilitation provision			21 832.00	9 750.00	10 607.00	303.10			
	-	-	635 016.00	179 545.00	123 428.00	4 230.50	4 160.60	1 662 800.00	1 287 500.00
Current liabilities									
Creditors			96 161.00	44 062.00	38 813.00	-	-	472 400.00	393 900.00
Taxation			908.00	10 053.00	14.00	-	-	20 000.00	
Short term loans and overdrafts			101 963.00	15 638.00	29 655.00	-	-	244 400.00	200.00
Other Liabilities						1 353.50	1 361.30	525 100.00	475 900.00
Provision for dividend			9 512.00	-	-	-	-		
Total current liabilities	-	-	202 544.00	69 753.00	68 482.00	1 353.50	1 361.30	1 261 900.00	868 000.00
TOTAL EQUITY AND LIABILITIES	-	-	837 560.00	249 298.00	191 910.00	5 584.00	5 521.90	2 924 700.00	2 155 500.00

SOURCES: Company Annual reports 1998 to 2006